

# GOLDEN STAR RESOURCES LTD.

## FORM 10-K (Annual Report)

Filed 03/31/99 for the Period Ending 12/31/98

Telephone	416 583 3800
CIK	0000903571
Symbol	GSS
SIC Code	1040 - Gold And Silver Ores
Industry	Gold & Silver
Sector	Basic Materials
Fiscal Year	12/31

# GOLDEN STAR RESOURCES LTD

## FORM 10-K (Annual Report)

Filed 3/31/1999 For Period Ending 12/31/1998

Address	10901 WEST TOLLER DRIVE SUITE 300 LITTLETON, Colorado 80127
Telephone	303-830-9000
CIK	0000903571
Industry	Gold & Silver
Sector	Basic Materials
Fiscal Year	12/31

# SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

## FORM 10-K

[ X ] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended December 31, 1998

Commission file number 0-21708

### GOLDEN STAR RESOURCES LTD.

(Exact Name of Registrant as Specified in Its Charter)

Canada  
(State or other Jurisdiction of  
Incorporation or Organization)

98-0101955  
(I.R.S. Employer  
Identification No.)

1660 Lincoln Street, Suite 3000  
Denver, Colorado  
(Address of Principal Executive Office)

80264-3001  
(Zip Code)

(303) 830-9000  
(Registrant's telephone number, including area code)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class -----	Name of Exchange on which Registered -----
Common Shares	American Stock Exchange Toronto Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes X No \_\_\_\_\_

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. \_\_\_\_\_

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$24.5 million as of March 12, 1999, based on the closing price of the shares on the American Stock Exchange of \$0.81 per share.

Number of Common Shares outstanding as at March 12, 1999: 30,292,249

#### DOCUMENTS INCORPORATED BY REFERENCE

The Company's 1999 Proxy Statement and Information Circular for the 1999 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 1998 pursuant to Regulation 14A under the Securities Exchange Act of 1934, is incorporated by reference into Part III hereof.

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The Registrant will furnish a copy of any exhibit filed as part of this report to any shareholder of record upon receipt of a written request from such person and payment of the Registrant's reasonable expenses for furnishing such exhibit. Requests should be made to the Secretary of the Registrant at the address set forth on the cover page of this report.

## REPORTING CURRENCY AND FINANCIAL INFORMATION

All amounts in this Report are expressed in United States dollars, unless otherwise indicated. References to (i) "Cdn" are to Canadian dollars, (ii) "FF" are to French francs and (iii) "R" are to Brazilian reals.

Financial information is presented in accordance with accounting principles generally accepted in Canada. Differences between accounting principles generally accepted in the United States and those applied in Canada, as applicable to the Company, are explained in Note 15 to the Consolidated Financial Statements.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-K constitute "forward-looking statements" within the meaning of The Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: gold and diamond exploration and development costs and results, changes in gold price, the establishment, quantification and recovery of reserves and mineralized material, the timing and scope of future drilling, results of pending and future feasibility studies, political, economic and operational risks of foreign operations, force majeure events, impacts of the year 2000 problem and its effect on joint venture partners and third party suppliers, competition, uninsured risks, capitalization and commercial viability and expectation regarding the receipt of permits and licenses. (See "Item 1. Risk Factors".)

## PART I

### **ITEM 1. DESCRIPTION OF BUSINESS**

#### **Overview**

Golden Star Resources Ltd. ("Golden Star" or the "Company" or "we") is an international gold and diamond exploration company with a diverse portfolio of active and inactive exploration and development projects, and a non-operating interest in a producing mine. The Company's core focus is on the acquisition, discovery and development of gold and diamond projects and, if appropriate, the execution of partnership arrangements with major mining companies to develop and operate mines. The Company currently has projects in various stages of development in Guyana, French Guiana (through its approximately 71% owned publicly traded subsidiary, Guyanor Ressources S.A.), Suriname and Brazil in South America, and in Ivory Coast and Kenya in Africa. In this report, "Company" refers to Golden Star Resources Ltd. and its subsidiaries unless the context specifies otherwise.

The Company's efforts are concentrated in a geologic domain known as greenstone belts, which are ancient volcanic-sedimentary rock assemblages. Greenstone belts are known to be favorable geologic environments for gold mineralization and account for a significant proportion of the world's historic gold production. The Company began its exploration activities in 1985 in the tropical, Proterozoic greenstone belts of the Guiana Shield, and extended its activities in the 1990's to the geologically related greenstone belts of the Brazilian Shield and West African Shield and to the greenstone belts of East Africa. During 1998, the Company abandoned or suspended its activities on several projects to focus on its most promising prospects.

As at March 12, 1999, the Company's interest in gold production was in the form of a 30% common share equity interest in Omai Gold Mines Limited, a company incorporated under the laws of Guyana ("OGML"), the owner and operator of the Omai gold mine in Guyana (the "Omai Mine") (see "Item 2. Description of Properties - Guyana Properties - Omai Mine"). A study was completed in 1997 on the Company's second major project, Gross Rosebel, located in Suriname. The study contained a description and analysis of the economic and commercial viability of bringing into production and operating a mine on Gross Rosebel assuming a gold price of between \$380 and \$400 during the life of the mine. Mine development at Gross Rosebel has been deferred pending receipt of all necessary approvals from the Government of Suriname (including approval of the feasibility study), the resolution of several development issues and an improved gold price (See "Item 2. Description of Properties - Suriname - Gross Rosebel").

The Company was established under the Canada Business Corporations Act on May 15, 1992 as a result of the amalgamation of South American Goldfields Inc., a Canadian corporation, and Golden Star Resources Ltd., a corporation originally incorporated under the provisions of the Alberta Business Corporations Act on March 7, 1984 as Southern Star Resources Ltd. Concurrent with the amalgamation, the common shares of the Company were consolidated on a one-for-two basis. Reference to common shares herein means common shares of the Company after the amalgamation and the share consolidation. The fiscal year of the Company ends on December 31.

The head office of the Company is located at 1660 Lincoln Street, Suite 3000, Denver, Colorado 80264-3001, and the registered and records office is located at 19th Floor, 885 West Georgia Street, Vancouver, British Columbia V6C 3H4. As at March 12, 1999, the Company and its subsidiaries had a total of approximately 180 full-time employees, of which 14 were based in Denver, 12 are expatriate geologists and the balance are mostly nationals of the various countries in South America and Africa where the Company and its subsidiaries carry on their operations.

The Company has established a decentralized structure in order to facilitate effective management of its geographically diverse portfolio of mineral properties. The Company owns a 71% interest in Guyanor Ressources S.A. ("Guyanor"), a French public company. Guyanor was originally established in order to comply with the laws

of France which require that mining title in France be held by a French company. Guyanor's Class B common shares are listed on the Toronto Stock Exchange under the symbol "GRL.B" and on the Nouveau Marche of the Bourse de Paris under the symbol "GUYN".

## **Business Strategy**

The Company's business strategy is to focus on its core skills of gold and diamond exploration and property acquisition, with the ultimate goal of holding significant interests in large scale gold and diamond mines. The Company's business strategy is dependent on availability of adequate capital (see "Risk Factors - Risks associated with our limited financial resources") and is comprised of the following elements:

. Focus on exploration. The Company believes that the greatest potential increase in shareholder value in the gold and diamond mining sector comes from the discovery and development of mineral deposits. The Company intends to continue to concentrate its exploration efforts in its areas of expertise, gold and diamond exploration, in the tropical greenstone belts of the Guiana Shield, and, to a lesser extent, the Brazilian Shield, West African Shield and East Africa.

. Concentrate on current portfolio of properties. The Company intends to focus its efforts on advancing the most promising projects within its portfolio of properties to the feasibility stage. To preserve cash, our early and intermediate stage projects are placed in care and maintenance. The Company continues to pursue new opportunities and may, if warranted, make selective additional acquisitions of promising properties.

. Corporate Transactions. In view of the current gold market environment, the Company intends to focus on corporate transactions that offer the potential to provide cash or cash flow to fund exploration and development. Various transactions being considered include merger with other companies and acquisitions.

. Partner with major mining companies. The Company intends to continue to leverage its exploration capital by entering into partnership arrangements with major mining companies that have the technical skills and financial resources to develop and operate large modern mining operations. This strategy enables the Company to transfer a portion of the business and financial risks associated with exploration and development to its partners and, therefore, utilize a greater portion of its funds to explore and develop additional projects.

. Maintain a strong local presence in the countries where the Company operates. The Company intends to continue its practice of locating offices, the majority of its employees and certain of its executives in countries where the Company has exploration, development and mining interests. Many of the Company's employees are from countries in which the Company operates. The Company believes that its local presence and hiring practices support its exploration efforts by enabling the Company to establish and maintain good communications with local government officials and business leaders. In addition, the Company believes that its decentralized local management structure enables it to make more efficient exploration and management decisions.

## **Certain Significant Events in 1998 and Recent Developments**

Important changes in the management of the Company were made during 1998 and 1999. Mr. James Askew was appointed President and Chief Executive Officer of the Company on March 8, 1999. Prior to joining the Company, Mr. Askew was President and CEO of Rayrock Resources. From 1986 to 1996, Mr. Askew served as President and CEO of Golden Shamrock Mines, Ltd. Before being acquired by Ashanti Goldfields Limited in October 1996, Golden Shamrock operated four mines and had a \$20 million annual exploration budget. Mr. Pierre Gousseland, Chairman of the Company since January 1, 1998, acted as CEO during the interim period following Mr. David Fennell's resignation as President and Chief Executive Officer on October 27, 1998. Under a Separation Agreement and Release which became irrevocable on November 7, 1998, the Company paid to Mr. Fennell \$597,000, the equivalent of two year's salary and reimbursed Mr. Fennell for \$10,000 of expenses.

In light of the low gold prices that prevailed in 1998 and that have continued since, the Company has substantially curtailed its exploration activities and general and administrative expenses in an effort to conserve cash resources. As of February 28, 1999 the Company had approximately \$6 million. As a result, the number of employees of the Company has been reduced from approximately 350 in December 1997 to approximately 180 in March 1999.

On April 21, 1998, the Company acquired the balance of the outstanding common shares of Pan African Resources Corporation ("PARC") not already held by the Company (then a 64% owned publicly-traded subsidiary of the Company), pursuant to a share exchange under a statutory plan of arrangement among PARC and its shareholders. As a result of the exchange, the Company issued 388,574 additional common shares to minority holders of PARC common shares and PARC ceased to be a publicly-traded company.

As a result of low copper prices and reduced exploration budgets, ASARCO Incorporated ("ASARCO") decided to significantly curtail its joint venture spending and withdrew in May 1998 from its joint venture agreements with Guyanor on the St-Elie and Paul-Isnard projects (See French Guiana - St-Elie and Paul-Isnard.)

On June 12, 1998 the Company acquired 2,380,000 Class B common shares of Guyanor at a price of FF9.53 or Cdn\$2.34 per share. Payment of the total consideration of FF22,681,400 or approximately Cdn\$5,570,000 for the shares was satisfied by reducing the equivalent amount of debt owed by Guyanor to the Company. As a result, the Company's equity interest in Guyanor increased from approximately 69.3% to approximately 71%.

The Company entered into an option agreement with North Exploration (Overseas) Pty Limited ("North") in July 1998. Under the terms of the agreement, North may earn a 60% participating interest in the Tanda property located in Ivory Coast by spending (i) a minimum of \$400,000 on exploration during the first 12 months and (ii) an aggregate of \$3,000,000 over a period of 36 months in order to earn a 60% interest in Tanda.

On August 14, 1998, the Company announced that an internal review of the estimates of mineralized inventory of the Paul-Isnard project previously published in February 1998 identified several inappropriate parameters which led to an over-estimation of open pit mineralized inventory and, to a much lesser degree, geologic inventories. A new estimate was prepared and independently verified using more appropriate parameters taking into consideration the overall confidence of the geologic model and grade estimations given the wide spaced drilling information for the project. The restatement reduced open pit mineralized inventory at the Montagne d'Or deposit at Paul Isnard from 16.3 million tonnes grading 2.5 g Au/t to 4.6 million tonnes grading 2.6 g Au/t. Geologic mineralized inventory were modified from 28.6 million tonnes grading 2.0 g Au/t to 34.7 million tonnes grading 1.4 g Au/t.

In December 1998, the Company withdrew from an option agreement on the Dieu- Merci project in French Guiana. (See "Item 2. Description of Properties - French Guiana - St. Elie.")

## Reserves

The following table presents current reported reserves for Omai mine. These reserves were estimated by Cambior Inc., the mine manager. See "Item 2. Description of Properties," for a description of Omai Gold Mines and "Risk Factors" for a discussion of items which could affect the Company's reserve estimates.

### RESERVES (Proven & Probable)

Project	Tonnes (100%)	Gold Grade g/t	Contained Ounces (100%)	Contained Ounces (the Company's share)
Omai Mine 1,2	42,929,000	1.40	1,888,000	580,000
Total	42,929,000	1.40	1,888,000	580,000

(1) This estimation has assumed a \$325/oz gold price.

(2) Results reported by Cambior as of December 31, 1998.

The definitions of Proven (Measured) & Probable (Indicated) Reserves (see glossary of terms) are those used in the United States by the Securities and Exchange Commission and set forth in SEC Industry Guide 7. These definitions are substantially the same as those applied in Canada as set forth in National Policy No. 2-A.

## Mineralized Material

The following table presents mineralized material by property. Mineralized material has been estimated by Cambior Inc. or by the Company as indicated below. See "Item 2. Description of Properties" for a description of each property and see "Risk Factors" below for a discussion of items that could affect the Company's estimates of mineralized material.

Mineralized material does not represent reserves and has not been included in the Proven and Probable Reserve estimates because even though enough drilling and trenching indicate a sufficient amount and grade to warrant further exploration or development expenditures, these mineral deposits do not qualify under the U.S. Securities and Exchange Commission standards as being commercially minable until further drilling, metallurgical work and other economic and technical feasibility factors based upon such work are resolved.

The Company only reports mineralized material if the potential exists for reclassification to reserves following additional drilling and/or final technical, economic, and legal factors have been determined for the project.

### MINERALIZED MATERIAL /1/

Project	Tonnes (100%)	Tonnes (the Company's share)	Gold Grade g/t
Gross Rosebel /2/	41,350,000	20,675,000	1.6
Yaou /2/	9,280,000	4,640,000	2.4
Dorlin /2/	7,207,000	3,604,000	1.3
Paul Isnard /3/	6,178,000	3,954,000	2.8
Total	64,015,000	32,873,000	1.8

/1/ All estimates reflect mineralized material within open pits designed using geologic, economic and design constraints that the Company believes are realistic assuming a \$325/oz gold price.

/2/ Results reported by Cambior as of December 31, 1998. /3/ Results estimated by the Company in February 1999.

## RISK FACTORS

### READERS SHOULD CAREFULLY CONSIDER THE RISK FACTORS SET FORTH BELOW.

#### Risks associated with our limited financial resources

We have limited financial resources. To date, and for the reasonably foreseeable future, our exploration and development activities have not generated, and are not expected to generate, substantial revenues. As at February 28, 1999, we had approximately \$6 million in cash and short-term investment and we do not expect to have any operating revenues in 1999. Our exploration activities require significant expenditures. The low gold price adversely affects our ability to obtain financing and therefore our abilities to develop our current portfolio of properties. We cannot assure you that additional funding will be available in 1999. This situation affects our flexibility to invest funds in exploration and development. We may, in the future, be unable to continue our exploration or development programs and fulfill our obligations under our agreements with our partners or under our permits and licenses. Although we have been successful in the past in obtaining financing through partnership arrangements and the sale of equity securities, we cannot assure you that in the future we will be able to obtain adequate financing on acceptable terms. If we are unable to obtain such additional financing, we may need to delay or indefinitely postpone further exploration and development of our properties. As a result we may lose our interest in some of our properties and may be obliged to sell some of our properties. Without a financing or other capital raising transaction such as a sale of assets, and based on the current budget, we expect to have only \$300,000 of cash available as of December 31, 1999. If no money is raised before then, it will materially and adversely affect our operations and our ability to continue as a going concern.

#### Low gold price

Changes in gold prices may significantly affect the development of our projects. The price of gold can fluctuate significantly. In 1998, the market price of gold declined to the lowest levels in over eighteen years. It has remained below \$300 for most of 1998.

Numerous factors affect gold prices, including:

- . demand and supply of gold;
- . central bank loans, sales and purchases of gold;
- . production cost and volumes of world gold production;
- . forward sales of gold by producers;
- . inflation expectations;
- . interest rates;
- . confidence in the global monetary system and the strength of the U.S. dollar and other currencies; and
- . international or regional political or economic events.

The current demand for, and supply of, gold affects gold prices. The supply of gold is provided by new mine production and existing stocks of bullion gold held by government central banks, financial institutions, industrial organizations and individuals. Since mine production in any single year constitutes a very small portion of the total potential supply of gold, normal variations in current production do not necessarily have a significant effect on the supply of gold or on its price. Mobilization of gold stocks held by central banks through lending and sales may have a significant adverse impact on the gold price.

If gold prices decline below the cost of production at the Omai mine and remain at such levels for any sustained period, Omai Gold Mines Limited could determine that it is not economically feasible to continue commercial production. If gold prices decline below estimated cash costs of production at any of our exploration and development properties, we could determine that it is not economically feasible to continue the development of some or all of our projects and material write-downs of our investment in mining properties may be required. In addition, declining gold prices materially affect our ability to obtain additional funds to finance our activities.

The following table sets forth for the last ten years the high and low selling prices of gold:

Year	High	Low
1989	\$418.90	\$358.10
1990	\$422.40	\$346.80
1991	\$403.20	\$344.30
1992	\$359.30	\$329.70
1993	\$407.00	\$326.30
1994	\$398.00	\$370.60
1995	\$395.40	\$371.20
1996	\$414.70	\$368.00
1997	\$360.00	\$283.00
1998	\$314.70	\$275.60

The closing trading price per ounce of gold quoted by the New York Commodities Exchange on March 12, 1999 was \$293.40.

Gold exploration is speculative in nature

Gold exploration involves a high degree of risk and exploration projects are frequently unsuccessful. Few prospects which are explored are ultimately developed into producing mines. The long-term success of our operations is directly related to the cost and success of our exploration programs. We cannot assure you that our gold exploration efforts will be successful. The risks associated with gold exploration include:

- . the identification of potential gold mineralization based on surficial analysis;
- . the quality of our management and our geological and technical expertise; and
- . the capital available for exploration and development.

Substantial expenditures are required to determine if a project has economically mineable mineralization. It may take several years to establish proven and probable reserves and to develop and construct mining and processing facilities. As a result of these uncertainties, we cannot assure you that current and future exploration programs will result in the discovery of ore reserves, the expansion of our existing reserves and the development of mines.

Uncertainty involved in the development projects and in mining

Mining projects frequently require a number of years and significant expenditures during the mine development phase before production is possible. Development projects are subject to the completion of successful feasibility studies, issuance of necessary governmental permits and receipt of adequate financing. The economic feasibility of such development projects is based on many factors such as:

- . estimation of reserves,
- . metallurgical recoveries,
- . future gold prices, and
- . capital and operating costs of such projects.

For example, we have deferred the development of our Gross Rosebel project until, among other considerations, gold prices improve.

Exploration and development projects have no operating history upon which to base estimates of future operating costs and capital requirements. Estimates of proven and probable reserves and operating costs determined in the feasibility studies are based on geologic and engineering analyses. As a result, the risks and uncertainties attached to an exploration company are very high.

We have a 30% interest in the Omai Mine in Guyana. To that extent, we are subject to risks and hazards inherent to the mining industry, including:

- . unanticipated grade and tonnage of ore to be mined and processed;
- . unanticipated adverse geotechnical conditions;
- . costs of constructing and operating a mine in a specific environment;
- . processing and refining facilities;
- . availability of economic sources of energy;
- . adequacy of water supply;
- . adequate access to the site, unanticipated transportation costs;
- . government regulations (including regulations relating to prices, royalties, duties, taxes, restrictions on production, quotas on exportation of minerals, as well as the costs of protection of the environment and agricultural lands);
- . fluctuations in gold prices; and
- . accidents, labor force and force majeure factors.

The occurrence of any of these factors could materially and adversely affect the development of a project and as a result our business, financial condition, results of operations and cash flow.

#### Lack of technical expertise to manage development and operating stages

We currently do not have adequate technical expertise to manage the development and operating stages of the projects in which we have an interest. We currently rely on our partners for the development of our most advanced projects. Therefore, we have less control over such matters than we would if we were the operator. Cambior Inc. manages our most advanced projects, the Omai Mine in Guyana, Gross Rosebel in Suriname and Yaou-Dorlin in French Guiana.

#### Uncertainty in the estimation of reserve and mineralized material

There are numerous uncertainties inherent in estimating proven and probable reserves and mineralized material, including many factors beyond our control. The estimation of reserves and mineralized material is a subjective process and the accuracy of any such estimate is a function of the quantity and quality of available data and of the judgments used in engineering and geological interpretation. Results of drilling, metallurgical testing and production and the evaluation of mine plans subsequent to the date of any estimate may justify revision of such estimates. In 1998, we issued two press releases revising certain estimates previously made in estimating the mineralized inventory for our Paul-Isnard and St-Elie projects. Internal reviews indicated that we had previously used inappropriate parameters in our mineralized inventory estimations which led us to over-estimate our mineralized material. Consequently, we prepared new estimates using more appropriate parameters. Our new estimates are significantly lower than those reported previously. We cannot assure you that similar revisions will not be required in the future.

To estimate reserves we must also rely on assumptions about gold prices. Estimated reserves may have to be recalculated when gold prices change. As a result of the recent decline in the market price of gold, the reserves of Omai mine were recalculated using a lower gold price assumption and our proven and probable reserves have decreased. Increased production costs or reduced recovery rates may also cause the decrease of reserves, asset write-downs, deferral or abandonment of the development of a project or mining at one or more of the Company's properties. Due to economic and operating uncertainties, the reserve estimates for the Gross Rosebel project in Suriname were recently re-classified by Cambior from mineral reserve to mineral resources.

## Diamond exploration is highly speculative

The exploration and development of diamond deposits involve exposure to significant financial risks over a significant period of time. Very few properties which are explored are ultimately developed into producing mines. Major expenses over a period of several years may be required to establish reserves by sampling and drilling and to construct mining and processing facilities at a site. We cannot assure you that our current or future exploration programs will result in profitable commercial diamond mining operations.

Whether a diamond deposit will be commercially viable depends on a number of factors, including its size, the size, quantity and quality of the diamonds, proximity to infrastructure, financing costs and governmental regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of diamonds and environmental protection. We cannot accurately predict the effect of these factors. We may not be able to receive an adequate return on invested capital.

## Marketability of diamonds depends on several factors

If we discover an economically exploitable diamond deposit, the marketability of the diamonds will be affected by numerous factors beyond our control. These factors include the structure of the world diamond market, market fluctuations, governmental regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of diamonds and environmental protection. We cannot accurately predict the exact effect of these factors. The combination of these factors can impair our ability to receive an adequate return on invested capital. The price for diamonds is, among other things, based on the size, cut, color and quality of individual diamonds sold and, to a lesser extent, the market supply and demand for diamonds in general.

## Risks of exploration and development in foreign countries

Certain laws, regulations and statutory provisions in certain countries in which we have mineral rights could, as they are currently written, have a material negative impact on our ability to develop a commercial mine. The range and diversity of the laws and regulations are such that we cannot adequately summarize them in this document. We intend to negotiate mineral agreements with the governments of these countries and seek variances or otherwise be exempted from the provisions of these laws, regulations and/or statutory provisions. We cannot assure you, however, that we will be successful in obtaining mineral agreements or variances or exemptions on commercially acceptable terms.

Our assets and operations are affected by various political and economic uncertainties, including:

- . the risks of war or civil unrest;
- . expropriation and nationalization;
- . renegotiation or nullification of existing concessions, licenses, permits, and contracts;
- . illegal mining;
- . changes in taxation policies;
- . restrictions on foreign exchange and repatriation; and
- . changing political conditions, international monetary fluctuations, currency controls and foreign governmental regulations that favor or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

In the event of a dispute arising at our foreign operations, we may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in the United States or Canada. We may also be hindered or prevented from enforcing our rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. Currently, we cannot predict developments or changes of law or policy which could have a material adverse impact on our operations.

French Guiana has no history or tradition of large-scale commercial mining. As a result, regulatory risk may increase as projects become more advanced and applications are made for all of the various permits required to develop a modern mining operation. This risk includes regulatory-related delays and/or failures to receive required permits. French Guiana's mining tradition is small-scale, alluvial gold mining, which began in approximately 1855 and is reported to have resulted in approximately 5.4 million ounces (175 tonnes) produced to date. These small-scale miners, called *orpailleurs*, often operate in or near areas being explored by Guyanor as well as other areas under active exploration by other companies. Certain groups of *orpailleurs* have organized themselves and represent a political force that has sought to gain exclusive preference to near-surface mineralization throughout French Guiana, regardless of the legal rights of legitimate permit holders under French law. This may result in increased pressure from the government to accept small scale miners on our properties.

Despite the fact that we have hired security personnel to protect our properties, illegal miners have also been working on our properties in Suriname and Brazil. The issue of *orpailleurs*' rights to near-surface mineralization in French Guiana and the issue of illegal miners in Suriname and Brazil could lead to project delays and disputes regarding the development of commercial gold deposits. The work performed by the illegal workers also causes environmental damages for which we could potentially be held responsible.

#### Requirements for permits and licenses

Many of our mineral rights and interests are conditional upon obtaining government approvals. The approvals may be subject to the discretion of the applicable governments or governmental officials some of which may not be favorably disposed toward us. For example, in French Guiana many governmental officials have been highly critical of the Company's activities. This may impact our ability to obtain satisfactory permits or concessions. We therefore cannot assure you that we will be successful in obtaining, in a timely fashion, the approvals necessary to obtain the licenses and permits required to continue our activities on all our projects. We also cannot assure you that we will be able to maintain them in full force and effect without modification or revocation.

We may from time to time be temporarily in breach of certain provisions of such laws, regulations, licenses and permits. Such licenses and permits are subject to modification or revocation as discussed above in "Risks of Exploration and Development in Foreign Countries", and, from time to time, there may also be changes in laws and regulations and in various operating circumstances. We cannot assure you that we will be able to obtain or maintain in force all necessary licenses and permits or comply in all material respects with all applicable laws and regulations that may be required to conduct further exploration or commence construction or operation of mining facilities at properties under exploration or to maintain continued operations at economically justifiable costs.

#### Dependence on key personnel; Recent management changes

We are dependent on the services of certain key officers and employees, including our recently appointed Chief Executive Officer and certain geologists responsible for our most advanced projects. There is a fair amount of competition in the mineral exploration industry for qualified individuals, and the loss of any of our key officers or employees, if not replaced, could have a material adverse effect on our business and operations. We have entered into agreements with certain officers which provide for payments upon termination without cause or, in certain cases, upon a change of control of Golden Star.

In the fourth quarter of 1998, Mr. David Fennell resigned as President and Chief Executive Officer and Mr. Adrian Fleming resigned as Executive Vice President Exploration. Mr. James Askew was appointed in March 1999 to replace Mr. Fennell as President and Chief Executive Officer of Golden Star.

## Operational hazards and responsibilities

Our activities are subject to a number of risks and hazards including:

- . environmental hazards;
- . discharge of pollutants or hazardous chemicals;
- . industrial accidents;
- . labor disputes;
- . unusual or unexpected geological or operating conditions;
- . slope failures;
- . cave-ins;
- . failure of pit walls or dams, fire;
- . changes in the regulatory environment;
- . natural phenomena such as inclement weather conditions, floods and earthquakes; and
- . other hazards.

These occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. We may incur liability as a result of pollution and other casualties. We may not be able to insure fully or at all against such risks, due to political or other reasons, or we may decide not to insure against such risks as a result of high premiums or for other reasons. This can result in delayed production, increase in production costs or liability. Paying compensation for obligations resulting from such liability may be very costly and could have an adverse effect on our financial position. Furthermore, insurance against certain risks (including certain liabilities for environmental pollution or other hazards as result of exploration and production) is not generally available.

## Compliance with environmental regulations

We cannot assure you that compliance with existing regulations governing the discharge of materials into the environment, or otherwise relating to environmental protection, in the jurisdictions where we have projects will not have a material adverse effect in the future on our exploration activities, earnings, expenditures or competitive position. New or expanded regulations, if adopted, could affect the exploration or development of our projects or otherwise have a material adverse effect our operations.

As a result of the foregoing risks, expenditures on any and all projects, actual production quantities and rates and cash operating costs, among other things, may be materially and adversely affected and may differ materially from anticipated expenditures, production quantities and rates, and costs, just as estimated production dates may be delayed materially, in each case. Any such events can materially and adversely affect the our business, financial condition, results of operations and cash flows.

## Competition

We compete with major mining companies and other natural resource companies in the acquisition, exploration, financing and development of new prospects. Many of these companies are more experienced, larger, and better capitalized than us. Our competitive position depends upon our ability to successfully and economically explore, acquire and develop new and existing mineral prospects. Factors which allow producers to remain competitive in the market over the long term are the quality and size of the ore body, cost of operation, and proximity to market. We also compete with other mining companies for skilled geologists, geophysicists and other technical personnel. This may result in higher turnover and greater labor costs.

## Effects of foreign currency on our capital

We have in the past raised our equity capital in Canadian and U.S. dollars. We primarily maintain our accounts in U.S. dollars and convert such U.S. dollars into various local currencies on an as needed basis in order to conduct

local operations. We maintain the majority of our working capital in U.S. dollars or U.S. dollar denominated securities and convert funds to foreign currencies as payment obligations become due. Accordingly, fluctuations in the rates of currency exchange between the U.S. dollar and these currencies may materially affect our financial position and results of operations. We currently have future obligations which are payable in French francs and Brazilian reals and receivables payable in French francs. We do not actively take steps to hedge against such risks.

Effective January 1, 1999, eleven of the fifteen member countries of the European Monetary Union ("EMU") adopted a single European currency, the "Euro", as their common legal currency. During the next three years, business conducted within the EMU will be conducted in both the existing national currency and the Euro. As a result, companies operating in EMU member states will need to ensure that their financial systems are capable of processing transactions and properly handle these currencies, including the Euro. The operations of our 71% owned subsidiary Guyanor are affected by this change but we do not expect a material impact on our operations as a result of the transition to the Euro.

#### Risk of being classified as a Passive Foreign Investment Company

Under the United States Internal Revenue Code of 1986, as amended, we may be classified as a passive foreign investment company (a "PFIC"). United States shareholders of a PFIC are subject to certain adverse tax consequences, as discussed below. These consequences can be mitigated, under certain circumstances, if the United States shareholder makes a timely election to treat the Company as a "qualified electing fund". We have been advised by PricewaterhouseCoopers LLP that we should not be treated as a PFIC with respect to shares purchased by United States shareholders during the years 1993 through 1998, although we could potentially be a PFIC with respect to shares acquired by United States shareholders prior to 1993. We also intend to engage PricewaterhouseCoopers LLP, or such other advisor, in the future to analyze whether we are a PFIC in subsequent years and will continue to notify shareholders of the results of such future analyses. There can be no assurance as to whether or not PricewaterhouseCoopers LLP, or such other advisor, will conclude that we are a PFIC for such period. Moreover, even if PricewaterhouseCoopers LLP, or such other advisor, concludes that we are not a PFIC, its conclusion is not binding on the United States Internal Revenue Service.

The PFIC analysis involves a complex analysis of many factors, including, among other things, the price of gold and the cash flow of OGML. For example, without increasing the amount of income and assets that produce active income through the development or acquisition of producing mines, a modest increase in these specific factors could result in our becoming a PFIC. Accordingly, it is possible that the PFIC rules will apply to holders of common shares. See Item

5. "Market for the Registrant's Common Equity and Related Stockholder Matters - Certain United States Income Tax Considerations."

## CONVERSION FACTORS AND ABBREVIATIONS

For ease of reference, the following conversion factors are provided:

1 acre	= 0.4047 hectare	1 mile	= 1.6093 kilometres
1 foot	= 0.3048 metre	1 troy ounce	= 31.1035 grams
1 gram per tonne	= 0.0292 ounce per short ton	1 square mile	= 2.59 square kilometres
1 short ton (2000 pounds)	= 0.9072 tonne	1 square kilometre	= 100 hectares
1 metric tonne	= 1,000 kg or 2,204.6 pounds		
1 kilogram	= 2.2 pounds or 32.151 troy ounce		

The following abbreviations of measurements are used herein:

Au	= gold	m/2/	= square metre
ct	= carat	m/3/	= cubic metre
ct/m <sup>2</sup>	= carats per square metre	mg	= milligram
gm	= gram	mg/m/3/	= milligrams per cubic metre
g/t	= grams per tonne	t	= metric tonne
ha	= hectare	oz	= troy ounce
km	= kilometre	oz/t	= troy ounces per ton
km <sup>2</sup>	= square kilometres	ppb	= parts per billion
kg	= kilogram		
m	= metre		

Note: All units in the text are stated in metric measurements unless otherwise noted.

## GLOSSARY OF TERMS

Note: The definitions of Proven (Measured) and Probable (Indicated) reserves set forth below are those used in the United States by the Securities and Exchange Commission and are set forth in SEC Industry Guide 7. (Formerly Form S-18, Item 17A.)

These definitions are substantially the same as those applied in the Canada as set forth in National Policy No.2-A.

Reserve	That part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.
Proven (Measured) Reserves	Reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth, and mineral content of reserves are well-established.

**Probable (Indicated) Reserves** Reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

The following definitions of the stages of the exploration and development process are used by the Company. There can be no assurance that the terminology used by the Company is consistent with the terminology used by other companies in the mining industry or by industry analysts.

early stage	an early stage exploration prospect typically involves one or more targets within an area which have been determined to merit further follow-up work based on a combination of geological, geochemical and geophysical analysis. The objective of an early stage prospect typically is to better define targets that have the potential to be advanced to the next state of exploration and level of financial commitment.
intermediate stage	an intermediate stage exploration prospect typically involves establishing near surface mineralization through such techniques as deep augering and trenching. Depending on spacing, drilling (both reverse circulation ("RC") and core) may be an intermediate stage exploration tool. The objective of the intermediate exploration stage is to advance a prospect by identifying a well defined zone of mineralization that suggests the potential of mineralization continuing to depth.
advanced stage	an advanced exploration stage prospect typically involves testing targets at depth and generating the information necessary to develop a three dimensional geologic model of the mineralized zone, which may be used to demonstrate mineralized materials and/or reserves. This typically is accomplished by trenching and drilling.
pre-feasibility stage	a pre-feasibility stage prospect typically involves a target for which sufficient geologic information exists about the mineralized zone to determine potential for estimating reserves. During the pre-feasibility stage, infill drilling is often done to increase the confidence of estimated mineralization. Wider spaced step-out drilling is often conducted to test for extensions of mineralized zones or to identify additional zones. The objective of the pre-feasibility stage is to identify sufficient mineralization which could potentially become reserves and which could support a rate of production over a sufficient period of time to justify the investment of capital to extract the reserves, based on realistic economic and financial assumptions.
feasibility stage	during the feasibility stage, exploration continues to further increase confidence in mineralization while attempting to further expand them. During this stage, management of the project is often transferred to the operating partner which develops in detail the necessary engineering and costing for mining, processing, power and

infrastructure, as well as the designs for the plant and equipment

required to construct and operate a modern mining operation. It is at the end of this stage that mineralization may be categorized as proven and/or probable reserves if a positive mining decision is justified.

mine mining is the process of transforming a reserve into benefits for its owners (debt, equity and employees), governments and communities. Exploration continues during the mining process and, in many cases, reserves are expanded during the life of the mine operations as the exploration potential of the deposit is realized.

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alluvium, alluvials a general term for clay, silt, sand, gravel or other material deposited by a body of water usually during recent geological time

alteration any change in the mineral composition of a rock brought about by physical or chemical means

anomaly a deviation from uniformity or regularity in geochemical or geophysical quantities

assay to analyze the proportions of metals in an ore

basic an igneous rock having a relatively low silica content, sometimes delimited arbitrarily as less than 54%

BLEG (Bulk Leach Extractable Gold) an analytical method for determining very low levels of gold in material

clastic a rock or sediment composed of broken fragments derived from preexisting rocks or minerals

diamond drilling a variety of rotary drilling in which diamond bits are used as the rock-cutting tool to produce a recoverable core of rock for observation and assay

dilation deformation by an increase in volume

dip the angle that a structural surface, a bedding or fault plane, makes with the horizontal, measured perpendicular to the strike of the structure

disseminated where minerals occur as scattered particles in the rock

elluvial an incoherent ore deposit resulting from decomposition or disintegration of rock in place

fault a surface or zone of rock fracture along which there has been displacement

felsic an adjective describing an igneous rock having most light colored minerals and rich in Si, K and Na

fold a curve or bend of a planar structure such as rock strata, bedding planes, foliation, or cleavage

formation a distinct layer of sedimentary rock of similar composition geochemistry the study of the distribution and amounts of the chemical elements in minerals, ores, rocks, solids, water, and the atmosphere

geochemistry the study of the distribution and amounts of the chemical elements in minerals, ores, rocks, solids, water, and the atmosphere

geological mapping the recording of geologic information such as the distribution and nature of rock units and the occurrence of structural features, mineral deposits, and fossil localities

geophysics the study of the earth; in particular the physics of the solid earth, the atmosphere and the earth's magnetosphere

granodiorite a medium to coarse-grained intrusive igneous rock, intermediate in composition between quartz diorite and quartz monzonite

granite a medium to coarse grained igneous intrusive rock in which quartz constitutes 10 to 50 percent of the felsic components

greenstone assemblages a sequence of usually metamorphosed volcanic-sedimentary rock

hydrothermal the products of the actions of heated water, such as a mineral

deposit precipitated from a hot solution

laterite highly weathered residual surficial soils and decomposed rocks, rich in iron and aluminum oxides that are characteristically developed in tropical climates

mafic an adjective describing an igneous rock composed mostly of one or more ferromagnesian, dark-colored minerals; also, said of those minerals

massive said of a mineral deposit, especially sulfides, characterized by a great concentration of ore in one place, as opposed to a disseminated or veinlike deposit

metasediment a sedimentary rock which shows evidence of having been subjected to metamorphism

metavolcanic a volcanic rock which shows evidence of having been subjected to metamorphism

mineral a naturally formed chemical element or compound having a definite chemical composition and, usually, a characteristic crystal form

mineralization a natural occurrence in rocks or soil of one or more metalliferous minerals

mineralized inventory a body of mineralization which has been delineated by trenching and/or drilling and/or underground sampling to support the determination of tonnage and average grade of metal(s). Mineralized inventory does not qualify as a reserve until a comprehensive evaluation based upon unit cost, grade, recoveries and other material factors conclude legal and economic feasibility. Consequently, although the potential exists, there is no assurance that mineralized inventory will ever become a reserve.

Mobile Metal Ion (MMI) a special geochemical method which detects low levels of metals in soil and other surface samples

outcrop that part of a geologic formation or structure that appears at the surface of the earth

Proterozoic the more recent time division of the Precambrian; rocks aged between 2500 and 550 million years old.

quartz crystalline silica; silicon dioxide

reverse circulation drilling (RC) a drilling method used in geological appraisals whereby the drilling fluid passes inside the drill stem to a down-the-hole precision bit and returns to the surface outside the drill stem carrying chips of rock

rotary air blast drilling (RAB), a drilling method used in geological appraisals whereby air or drilling fluid passes inside the inner tube of a double tube system to a down-

the-hole percussion bit and returns to the surface outside the inner tube but inside the outer tube carrying chips of rock

saprolite a soft, earthy, clay-rich and thoroughly decomposed rock formed in place by chemical weathering of igneous, sedimentary or metamorphic rocks which retains the original structure of the unweathered rock

shear zone a tabular zone of rock that has been crushed and brecciated by many parallel fractures due to shear strain

shear a form of strain resulting from stresses that cause or tend to cause contiguous parts of a body of rock to slide relatively to each other in a direction parallel to their plane of contact

shield a large area of exposed basement rocks often surrounded by younger rocks, e.g. Guyana Shield.

stock an igneous intrusion that is less than 100 square kilometres in surface exposure

stock an igneous intrusion that is less than 100 square kilometres in surface exposure

stockwork a mineral deposit in the form of a network of veinlets diffused in the country rock

strike the direction or trend that a structural surface, e.g. a bedding or fault plane, takes as it intersects the horizontal

strip to remove overburden in order to expose ore

surficial situated, formed, or occurring on or close to the Earth's surface

syncline a concave downward fold, the core of which contains the stratigraphically younger rocks

ultramafic an igneous rock composed chiefly of mafic minerals with unusually high % of Mg, Ca and Fe

vein a thin, sheetlike crosscutting body of hydrothermal mineralization, principally quartz

volcanic massive sulfide (VMS) mineral deposits formed by volcanic processes and the activities of thermal springs at the bottom of bodies of water.

volcanics those originally molten rocks, generally fine grained, that have reached or nearly reached the Earth's surface before solidifying

wall rock the rock adjacent to a vein

weathering the destructive process constituting that part of erosion whereby earthy and rocky materials on exposure to atmospheric agents at or near the Earth's surface are changed in character with little or no transport of the loosened or altered material

**FIGURE 1**

**MAP - SOUTH AMERICA**

**Map of "GOLDEN STAR RESOURCES LTD. - OPERATIONS IN SOUTH AMERICA," showing specific project locations in Guyana, Suriname, French Guiana and Brazil.**

**FIGURE 2**

**MAP - AFRICA**

**Map of "PAN AFRICAN RESOURCES CORPORATION - OPERATIONS IN AFRICA," showing specific project locations in Ivory Coast and Kenya.**

## **ITEM 2. DESCRIPTION OF PROPERTIES**

The following contains certain forward-looking statements within the meaning of the Reform Act. Actual results, performance or achievements of the Company could differ materially from those projected in the forward-looking statements due to a number of factors, including those set forth under "Risk Factors" and elsewhere in this Annual Report on Form 10-K.

### **General**

As of March 12, 1999, the Company owned, or had entered into agreements to acquire, direct and indirect interests in mineral properties located in the following countries: Guyana, France (French Guiana), Suriname, Bolivia and Brazil in South America as well as Kenya and Ivory Coast in Africa. The location of the Company's current active projects are illustrated in Figures 1 and 2 above.

All of the properties in which the Company had an interest as at March 12, 1999, are situated in geologic domains known as greenstone belts, which are ancient volcanic-sedimentary rock assemblages. Greenstone belts are known to be favorable geologic environments for gold mineralization and account for a significant proportion of the world's gold production, (e.g., the greenstone belts of the Canadian Shield in Eastern Canada, the Pilbara and Yilgarn Blocks of Western Australia, the greenstone belts of East and West Africa and the Guiana and Brazilian Shields of South America). In addition, as a result of the Company's gold exploration activity in the Guiana Shield, a regional exploration program was also established to search for possible primary diamond sources. This diamond exploration program has led to the identification of diamond targets in French Guiana, Suriname and Guyana. Regional geophysical surveys conducted in Ivory Coast have also led to the identification of diamond targets. In light of the Company's reduced exploration expenditures, diamond exploration efforts in the Guyana Shield have been significantly curtailed.

Gold exploration and mining have, in the past, been conducted within most of the areas where the Company's properties are located. However, with a few exceptions, the areas have yielded comparatively few large scale mining operations, due largely to a difficult physical environment, poor infrastructure, and until recently, adverse political and business conditions. Although there are, or have been, numerous artisanal mining operations scattered throughout the areas where the Company's properties are located, with very few exceptions, these areas had not until recently been fully explored with modern techniques and equipment.

All of the Company's mineral properties are located in developing countries, with the exception of French Guiana, a department of France. There are certain business and political risks inherent in doing business in developing countries. In particular, the regulatory framework for conducting mining and exploration activities in these countries, including the tax and general fiscal regimes and the manner in which rights and title to mineral properties are established and maintained, are often uncertain, incomplete, in a state of flux or subject to change without notice. Further, in many countries in which the Company's projects are located, it may not be economically feasible to develop a commercial mine unless special tax or other fiscal and regulatory concessions are obtained from the applicable government and regulatory authorities. Such concessions are typically sought in a mineral agreement (also known as foreign investment agreements and establishment agreements). A mineral agreement thus serves to establish the legal and financial framework pursuant to which mining will take place in countries where such framework might be otherwise unclear, uncertain or not commercially viable. There can be no assurance, however, that the Company will be able to execute or enforce satisfactory mineral agreements or obtain satisfactory political risk insurance on commercially reasonable terms for any or all of its properties. Consequently, the Company may have to abandon or relinquish otherwise valuable mineral rights if it determines that it will not be able to profitably exploit any discovery under existing laws and regulations. (See "Item 1. Risk Factors - Risks of exploration and development in foreign countries and Requirements for permits and licenses".)

Total consolidated expenditures and property abandonment costs for the Company's exploration projects for the fiscal year ended December 31, 1998 were as follows:

	Deferred Exploration Expenditures as at 12/31/97	Capitalized Exploration Expenditures	Capitalized Acquisition Expenditures	Joint Venture Recov- eries	Proceeds From Sale of Property Interest	Property Abandon- ments/ Write- downs	Deferred Exploration Expenditures as at 12/31/98
=====							
In Thousands of Dollars							
GUYANA (1)							
Eagle Mountain	\$ 1,136	228	-	-	-	-	1,364
Quartz Hill	1,347	-	-	-	-	-	1,347
Mazaruni/Upper Mazaruni Diamond	(4)	-	-	-	-	4	-
Five Stars Gold (Makapa)	3,684	501	-	-	-	(3,366)	819
Five Stars Diamond	2,360	179	-	-	-	(2,539)	-
BHP Gold Projects	333	70	-	(65)	-	(338)	-
Guyana Diamond Permits	109	-	-	-	-	(109)	-
Other	101	(10)	-	-	-	(34)	57
Sub-total	9,066	968	-	(65)	-	(6,382)	3,587
-----							
SURINAME (1)							
Benzdorp/Lawa	3,344	8	-	-	-	-	3,352
Gross Rosebel	13,892	1,275	-	(624)	-	-	14,543
Headley's Right of Exploration	311	2	-	-	-	-	313
Thunder Mountain	453	3	-	-	-	-	456
Saramacca	1,862	374	-	(263)	-	-	1,973
Sara Kreek	581	7	-	-	-	-	588
Tempati Reconnaissance	344	19	-	(16)	-	-	347
Tapanahony Reconnaissance	251	8	-	(25)	-	-	234
Kleine Saramacca	107	-	-	-	-	-	107
Lawa Antino	2,096	69	-	(56)	-	-	2,109
Ulemari Reconnaissance	291	(54)	-	-	-	-	237
Other	(17)	300	-	-	-	-	283
Sub-total	23,515	2,011	-	(984)	-	-	24,542
-----							
FRENCH GUIANA (2)							
(Guyanor Ressources S.A.)							
Dorlin	1,330	1,551	-	(518)	-	-	2,363
St-Elie	1,973	672	-	(268)	-	-	2,377
Dieu-Merci	382	644	-	(109)	-	(917)	-
Yaou	7,130	533	-	(177)	-	-	7,486
Paul-Isnard/Eau Blanche	3,629	1,139	-	(118)	-	-	4,650
Paul-Isnard Alluvials	1,987	-	-	-	-	-	1,987
Dachine	1,234	247	-	-	-	-	1,481
Other	81	(81)	-	-	-	-	-
Sub-total	17,746	4,705	-	(1,190)	-	(917)	20,344
-----							

	Deferred Exploration Expenditures as at 12/31/97	Capitalized Exploration Expenditures	Capitalized Acquisition Expenditures	Joint Venture Recov- eries	Proceeds From Sale of Property Interest	Property Abandon ments / Write- downs	Deferred Exploration Expenditures as at 12/31/98
=====							
In Thousands of Dollars							
AFRICA (3)							
(Pan African Resources Corporation)							
Ivory Coast / Comoe	2,092	2,212	-	-	-	-	4,304
Kenya / Ndori	1,677	888	-	-	-	-	2,565
Burkina Faso	8	-	-	-	-	(8)	-
-----							
Sub-total	3,777	3,100	-	-	-	(8)	6,869
-----							
LATIN AMERICA (1)							
Brazil / Andorinhas	8,490	129	200	-	-	(8,819)	-
Brazil / Abacaxis	2,096	352	50	-	-	-	2,498
Brazil / Other	189	387	-	-	-	(301)	275
Bolivia / Other	173	-	-	-	-	(173)	-
-----							
Sub-total	10,948	868	250	-	-	(9,293)	2,773
-----							
OTHER	108	(20)	-	-	-	-	88
-----							
TOTAL	\$ 65,160	\$ 11,632	\$ 250	\$ (2,239)	-	\$ (16,600)	\$ 58,203
=====							

- (1) A division of the Company.
- (2) Approximately 71% owned by the Company as of March 12, 1999.
- (3) Wholly owned subsidiary of the Company.

The following is a description of the principal mineral property interests held by the Company as of March 12, 1999. As a result of continuing weak gold prices, most, if not all, earlier stage projects have been abandoned or put on care and maintenance. Management may decide to modify expenditures currently budgeted for 1999 (as described below) later during the year if market and investment considerations warrant.

### GUYANA PROPERTIES

The Co-operative Republic of Guyana ("Guyana"), a former British colony, obtained independence in 1966. It has a surface area of 216,000 km2 with a population of approximately 800,000. The official language is English and the climate is tropical. Guyana is governed as a democratic republic, and the legal and land title systems are based on the English common law.

#### **Omai Gold Mines Limited**

OGML is an equity joint venture of the Government of Guyana, the Company and Cambior Inc. ("Cambior"). The Company owns a 30% common share equity interest in OGML. Cambior and the Government of Guyana own 65% and 5% of OGML, respectively. OGML owns the Omai Mine, the Eagle Mountain, OMAI River and Quartz Hill prospecting licenses.

#### **Omai Mine**

The Omai mine is owned by OGML. Cambior is the manager of all mining and related operations. The mine is located on a 52 km2 mining license on the Essequibo River, approximately 160 km southwest of Georgetown, Guyana. Access to the mine is by improved road and ferry or by fixed-wing aircraft to an all-weather airstrip.

The Company and Cambior entered into an agreement with the Guyana Geology and Mines Commission ("GGMC") and the Government of Guyana on August 16, 1991 (the "OMAI Mineral Agreement"), whereby, among other things, OGML was granted the right to obtain a mining license (which was granted on December 12,

1991), and to carry out mining operations in accordance with the terms of the Omai Mineral Agreement. In addition, the Omai Mineral Agreement provides for the payment to the Government of Guyana of a 5% in-kind royalty from the Omai Mine. It also provides that capital and profits may be repatriated without restrictions.

Pursuant to OGML's articles of incorporation, the Government of Guyana was granted the option to acquire from the combined holdings of the Company and Cambior in the common shares of OGML (i) after the expiration of eight years from commencement of commercial production at the Omai Mine (which was achieved in January 1993), but before the expiration of the tenth year, 5% of the common shares of OGML issued and outstanding at such time; and (ii) after the expiration of ten years from commencement of commercial production, but before the expiration of the twelfth year, an additional 22% of the common shares of OGML issued and outstanding at such time, at a price to be determined on the basis of the then current capital market values of the common shares of OGML. The Company and Cambior have each undertaken to sell and deliver to the Government of Guyana one-half of the total number of common shares of OGML required to be sold to the Government of Guyana upon exercise of the options mentioned above. If the Government of Guyana were to exercise both of its options as set forth above, the Company's common share equity interest in OGML would be reduced to 16.5%.

Pursuant to OGML's articles of incorporation, the Company received approximately \$11.0 million of Class I redeemable preferred shares of OGML in recognition of past exploration costs incurred by the Company. These preferred shares must be redeemed prior to any distribution to the common shareholders of OGML out of 10% of net cash flow from operations of OGML (as defined in the Omai Mineral Agreement). The reimbursements are calculated and paid quarterly to the Company. During the fiscal year ended December 31, 1998, the Company received \$1,738,411 as a result of the redemption of Class I preferred shares, for a total of \$8,051,730 in redemption of Class I preferred shares since the beginning of production in 1993. The Company does not expect to receive dividends from its common share holdings in OGML until debt owed by OGML and guaranteed by Cambior is repaid and Class II and III preferred shares held by Cambior are redeemed. As of December 31, 1998, OGML had \$115.7 million in debt and a total of \$50.2 million worth of Class II and III preferred shares outstanding. The Class III preferred shares have past cumulative unpaid dividends totaling \$57.4 million as of December 31, 1998.

On August 19, 1995, a failure occurred in the main section of the tailings dam at the Omai Mine. The failure resulted in the discharge of cyanide-contaminated water into the Omai River, which in turn flowed into the Essequibo River. Production at the Omai Mine was suspended from August 19, 1995, and resumed on February 4, 1996, after the Government of Guyana and OGML executed an agreement authorizing, under certain conditions, OGML to recommence commercial production at the Omai Mine. As a consequence of the tailings dam failure, there are approximately 330 outstanding claims against OGML in Guyana. Such claims are currently being settled, without admission of liability, or being contested in good faith, as applicable. Amounts claimed as at March 12, 1999 against OGML do not exceed \$400,000 in the aggregate and insurance coverage may be available to OGML in relation to a substantial portion of these claims. OGML and its shareholders, including the Company, may become involved as defendants, plaintiffs or otherwise in a variety of additional legal proceedings in Guyana or elsewhere in relation to this incident. There can be no assurance that such additional litigation will not result in material additional costs arising from out-of-court settlements, damage awards or other sanctions against OGML or the Company. There can also be no assurance that all or any of such additional costs will be covered by appropriate insurance.

### **Production and Reserves of Omai Mine**

The Omai Mine was brought into commercial production in January 1993 and currently is the only gold producing property in which the Company has an interest. Gold production from 1993 through 1998 totaled 1,552,755 ounces.

Gold production in 1998 was 327,546 ounces, compared to 338,496 ounces in 1997 and 254,950 ounces in 1996. The 3% decrease in production in 1998 was primarily attributable to a lower average head grade of 1.44 g Au/t compared to 1.54 g Au/t in 1997, while throughput averaged approximately 21,100 tonnes per day processing 63% hard rock during 1998, compared to 20,100 tonnes per day processing 73% in 1997. Gold recovery rates were 92%

in 1998 compared to 93% in 1997, while direct mining costs, including royalties, were \$240 per ounce in 1998, a slight improvement over the \$245 per ounce experienced in 1997. Quarterly production statistics for the Omai mine for 1998 are as follows:

	1998				Total / Average 1998
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
Ore milled (mt)	1,880,506	1,895,797	1,918,248	2,011,071	7,705,622
Rate (mt/day)	20,895	20,833	20,850	21,859	21,111
Grade (g Au/mt)	1.45	1.46	1.32	1.51	1.44
Recovery (%)	92	93	92	92	92
Gold Production (oz)	80,620	82,743	75,058	89,125	327,546
Cash cost of production (\$/oz)	244	242	247	228	240

For 1999, the Omai mine is expected to produce approximately 306,000 ounces of gold at a direct mining cost of approximately \$240 per ounce. Throughput is budgeted at approximately 20,400 tonnes per day processing approximately 67% hard rock. Head grades are anticipated to average 1.4 g Au/t with a budgeted gold recovery of 93%. During 1999, the continued stripping of waste is expected to result in a waste to ore ratio of approximately 3.6:1, compared to a life of mine waste to ore ratio of 1.9:1. As a result, the cost of additional waste stripping in excess of the average life of mine ratio will continue to be deferred and amortized in later years.

In reaction to continuing weak gold prices, OGML restated its proven and probable reserves for year-end 1998 using a \$325 gold price compared to a \$350 gold price used in 1997. On the basis of a \$325 gold price, Omai's proven and probable reserves at December 31, 1998 stood at 42.9 million tonnes at an average grade of 1.4 g Au/t, representing approximately 1.89 million ounces of gold. This is compared to proven and probable reserves at December 31, 1997 of 54.1 million tonnes at an average grade of 1.4 g Au/t, representing approximately 2.52 million ounces of gold. Reserves at Omai are derived from four sources: the Fennell Pit, the Wenot Lake Pit, alluvial deposits and stockpiles. The following table summarizes the reserves for these sources at year end 1997 and 1998:

	December 31, 1998			December 31, 1997		
	Proven and Probable Reserves (1) (tonnes)	Grade (g Au/t)	Contained Gold (oz)	Proven and Probable Reserves (1) (tonnes)	Grade (g Au/t)	Contained Gold (oz)
Fennell Pit	22,894,000	1.47	1,086,600	27,266,000	1.54	1,347,000
Wenot Lake Pit	9,420,000	1.69	511,200	15,721,000	1.72	872,000
Alluvials	1,117,000	0.90	32,300	1,117,000	0.90	32,000
Stockpiles	9,498,000	0.84	257,900	10,025,000	0.82	266,000
TOTAL	42,929,000	1.37	1,888,000	54,129,000	1.44	2,517,000

(1) Reserves are calculated using a price of gold of \$350 per ounce for 1997 and \$325 per ounce for 1998 with a cutoff grade of 0.35 g Au/t for soft rock reserves and 0.70 g Au/t for hard rock reserves.

### Eagle Mountain

The Eagle Mountain project is located in Central Guyana, 50 km from the Omai Mine. Prior to its sale in December 1998, the Company owned a 100% interest in the Eagle Mountain Prospecting License. The transfer of the Eagle Mountain License by the Company to OGML was approved by the Guyana government on December 21, 1998. The purchase agreement between the Company, OGML and Cambior Inc. was executed on December 23, 1998 and, in accordance with the agreement, the Company received \$80,000 on December 31, 1998 and the amount of \$3,169,230 was advanced to the Company by OGML. This unsecured loan is non-interest bearing until September 30, 2010 and must be repaid from the proceeds of redemption of Class I Preference Shares of OGML held by the Company. Starting October 1, 2010, the loan will bear interest at the US dollar prime rate. In addition, upon commencement of commercial production, OGML will have to pay the Company a 1.5% net smelter royalty. OGML will also pay to the Company an amount equal to \$1 million at the end of each of the first five twelve-month periods following commencement of commercial production. As a result of the transfer to OGML, the Company now has a 30% indirect interest in the Eagle Mountain project. In consideration for receiving a 5% free carried interest (its interest in OGML), the government of Guyana has accepted to charge a consumption tax of only 5% on fuel used with respect to the Eagle Mountain property.

### Gold Exploration Projects

Total expenditures by the Company on gold exploration projects in Guyana during 1998 amounted to \$1.0 million, \$0.1 million of which were reimbursed by the Company's joint venture partners. In 1997, total expenditures were \$3.6 million, \$0.1 million of which were reimbursed by joint venture partners.

In an effort to conserve cash resources, most exploration activity in Guyana has been temporarily suspended for 1999. Expenditures at the Company's Guyana operations are budgeted to be \$0.2 million after recovery of bonds for certain properties and after sales of certain assets. The Company recorded a write-down of deferred exploration in the fourth quarter of 1998 of approximately \$6.4 million related to projects in Guyana.

## **Makapa (Five Stars)**

The Makapa project, part of the Five Stars area, in northwestern Guyana, was identified on the basis of work completed during the Company's 1994 and 1995 reconnaissance program. Access to the property is by canoe or helicopter. The Makapa prospecting license was granted to the Company in June 1996. The term of the license is three years, renewable twice for a period of up to one year each. The Company owns a 100% interest in the Makapa prospecting license.

During 1998, a limited core drilling program consisting of 17 holes totaling approximately 1,070 meters, was completed to test the strike and depth potential of quartz vein related gold mineralization previously defined through soil geochemistry, augering and trenching. The program failed to demonstrate potential for an economic bulk tonnage deposit. Based on the results, the Makapa project was put on care and maintenance in mid 1998 due to budget constraints and project prioritization. The larger Makapa Prospecting License remains prospective but will remain on care and maintenance until such time as further early stage exploration is warranted.

## **SURINAME PROPERTIES**

### **General**

Suriname, a former Dutch colony, became independent in 1975. It has a surface area of 163,000 km<sup>2</sup>, a tropical climate and a population of approximately 470,000. The official language is Dutch with English spoken as a second, commercial and technical language. Suriname has a democratically elected government.

During 1998, the Company incurred total expenditures in Suriname of \$2.0 million, \$1.0 million of which was reimbursed by the Company's joint venture partners. Total expenditures during 1997 amounted to \$11.8 million, \$4.7 million of which was reimbursed by the Company's joint venture partners.

The Company's operations in Suriname in 1999 will consist primarily of care and maintenance for Gross Rosebel and continued engineering evaluation of the project. The Company's total Suriname expenditures in 1999 are budgeted to be approximately \$0.5 million.

### **Gross Rosebel**

Pursuant to a mineral agreement, dated May 8, 1992, as amended and restated on April 7, 1994 (the "Gross Rosebel Agreement"), between the Company, the Government of Suriname and the state mining company, Grasshopper Aluminum Company N.V. ("Grassalco"), Grassalco assigned to the Company its interest in the Gross Rosebel right of exploration, a 170 km<sup>2</sup> area in north-central Suriname. The Gross Rosebel Agreement was ratified by the National Assembly of Suriname on March 1, 1994.

As partial consideration for the transfer of the Gross Rosebel right of exploration, the Company issued 60,000 common shares to Grassalco on June 28, 1994. Under the terms of the Gross Rosebel Agreement, the Company committed to expend an aggregate of \$8.0 million on exploration activities over a five-year period commencing on May 8, 1992. As of May 8, 1997, the Company had spent approximately \$25.8 million on the Gross Rosebel property and, as a result, fulfilled its expenditure requirement. Of the amounts expended by the Company, Cambior has contributed \$14.1 million by way of joint venture recoveries (see discussion of Cambior Joint Venture below). In addition, in consideration for Grassalco making the Gross Rosebel property available for exploration, the Company paid \$1.0 million to Grassalco pursuant to the terms of the Gross Rosebel Agreement. A feasibility study and an environmental impact statement were submitted to the Government of Suriname in May 1997.

Upon approval by the Suriname Government of the feasibility study and the environmental impact statement, the Gross Rosebel right of exploration may be converted into a right of exploitation for an initial term of 25 years. The right of exploitation is to be granted to an operating company (the "Operating Company"). Within 30 days of the

grant of the right of exploitation, the Company and Cambior will be obligated to pay to Grassalco the total sum of \$2.5 million as compensation for previous exploration expenditures incurred by Grassalco.

Upon the grant of a right of exploitation to the Operating Company, Grassalco will have the option, for a period of 60 days, to purchase an undiluted 20% common share equity interest in the Operating Company by paying 20% of all exploration costs previously incurred by the Company and 20% of all subsequent costs of the Operating Company. Grassalco has a further option to purchase a second undiluted 20% interest in the shares of the Operating Company eight years following the date of commencement of commercial production (as defined in the Gross Rosebel Agreement) in consideration for the payment of a sum equal to 90% of the market value of such shares, as determined in accordance with the terms of the Gross Rosebel Agreement.

The Gross Rosebel Agreement provides that (i) a royalty of two percent of the gold produced from the Gross Rosebel property is payable in kind to Grassalco and (ii) an additional one-quarter of one percent royalty is payable for the life of the project to a charitable fund to promote national resources development in Suriname. In addition, a royalty of two percent of the proceeds received on any other minerals produced (less transportation and processing costs) is also payable to Grassalco. An advance royalty payment against the above-mentioned royalties of \$6.5 million must be made to Grassalco within 90 days of receipt of the first proceeds from the sale of minerals at Gross Rosebel and a further \$6.5 million must be made 12 months later. Further, in the event the price of gold exceeds \$500 per ounce Grassalco is entitled to an additional 6.5% royalty on that portion of the sales price which exceeds \$500 per ounce.

### **The Cambior Joint Venture**

The Company entered into an agreement on June 7, 1994, pursuant to which Cambior was granted the option to earn an undivided 50% interest in the Company's rights in the Gross Rosebel Agreement and Gross Rosebel property. On January 8, 1996, Cambior announced its decision to exercise its option to acquire 50% of the Company's rights in the Gross Rosebel property after expending \$6.0 million in exploration and development activities on the property, as required by the June 1994 option agreement. As also required, Cambior has advanced a further \$2.5 million in expenditures to be repaid out of initial project earnings. Since April 1996, when Cambior earned a 50% interest in Gross Rosebel, the Company and Cambior have been contributing equally to programs and budgets with respect to the Gross Rosebel property.

Under the June 1994 option agreement, Cambior must use its best efforts to secure financing for at least 65% of eventual mine development costs from third parties. Cambior assumed managerial responsibility for the preparation of the feasibility study. Cambior has the right to be appointed manager of all subsequent mining and related operations of the project.

### **The Property**

The Gross Rosebel right of exploration covers 170 km<sup>2</sup> (17,000 ha.) and is located 80 km south of the capital city of Paramaribo. Access is via a paved highway followed by an all-weather laterite surface road. Gold was reportedly first discovered in the area in 1879 and since then more than half of Suriname's recorded production has been produced from the district by dredging and small artisanal surface and underground workings. Commencing in 1974, Surplacer N.V., a subsidiary of Placer Development, a Canadian mining company (now Placer Dome), conducted an extensive exploration program of trenching, hand augering and rotary drilling over a period of three years. Subsequent field work was conducted by Grassalco over a period of seven years and a feasibility study was prepared and completed in 1984 by a Canadian engineering firm controlled by Grassalco.

The Gross Rosebel right of exploration is underlain by Proterozoic Armina, Paramaca, and Rosebel metasedimentary and metavolcanic greenstone formations. These units are intruded by a large tonalitic stock near the southern boundary of the property, which has resulted in doming of the adjacent Armina rocks and the development of steep reverse faults. The greenstone units are folded into a broad east-west trending and westerly plunging synclinal structure. Gold mineralization associated with at least five generations of hydrothermal quartz

veins occur over large areas both in the south and north limbs of the syncline where these are cut by strong west-northwest trending shear zones. Locally, mineralization is controlled by zones of dilation along the shear planes and by drag folding. Intense tropical weathering has developed a residual surface laterite and saprolite profile of up to 50 m thick, overlying bedrock. Gold mineralization has been established by the Company within at least ten separate target areas including Royal Hill, Mayo, Rosebel, Koolhoven, Pay Caro, East Pay Caro, "J" Zone, Bigi Asanjangmoni, Mama Kreek and Spin Zone. All of these target areas are capped by mineralized laterite blankets typically between 3 to 10 m in thickness overlying less continuous shear and/or fold related mineralization in saprolite and bedrock. Both types of deposits are being defined for potential mining.

### **Mineralized Material**

Cambior recently announced its year end 1998 mining reserves and mineral resources, restated at a \$325 gold price, compared to a price of \$350 per ounce for year end 1997. For year end 1997, both the Company and Cambior reported their 50% share of proven and probable mining reserves at Gross Rosebel, using a \$350 gold price, as 17.6 million tonnes grading 1.8 g Au/t, representing 996,000 ounces in situ. At year end 1998, Cambior has estimated its 50% share of Gross Rosebel at 20.7 million tonnes grading 1.6 g Au/t, representing 1,074,500 ounces of gold in situ, using a \$325 gold price, but reclassified them according to current Canadian Reporting Policy as "mineral resources" instead of proven and probable reserves. Under SEC rules and regulations in the United States unlike in Canada, companies may only report proven and probable reserves. The Company has not yet reviewed the estimate prepared by Cambior for year end 1998. The Company intends to have it verified, taking into account the parameters used in Cambior's re-estimation, a \$325 gold price and the recently revised operating costs. As a result of Cambior's reclassification, the Company cannot report proven and probable reserves for the Gross Rosebel project for year-end 1998. Instead the Company is reporting results for Gross Rosebel as mineralized material. See "Item 1. - Mineralized Material Table".

Mineralized material does not represent reserves and has not been included in the Proven and Probable Reserve estimates because even though enough drilling and trenching indicate a sufficient amount and grade to warrant further exploration or development expenditures, these mineral deposits do not qualify under the U.S. Securities and Exchange Commission standards as being commercially minable until further drilling, metallurgical work and other economic and technical feasibility factors based upon such work are resolved.

### **Mine Development**

A study was submitted to the Government of Suriname in May 1997. The study contained a description and analysis of the economic and commercial viability of bringing into production and operating a mine on Gross Rosebel assuming a gold price of between \$380 and \$400 during the life of the mine. Development of the Gross Rosebel project has been deferred pending receipt of necessary governmental approvals including approval of the feasibility study, resolution of several development issues, economic concessions from the government and improved gold prices. There can be no assurance that the government of Suriname will approve the feasibility study and the environmental impact statement and therefore grant a right of exploitation to the Operating Company. Some of the development issues that must be resolved prior to construction, include, amongst other things, the structure of the Operating Company, the ability to secure foreign investment insurance, availability of financing from banks and other financial institutions, and relocation of Nieuw Koffiekamp, a small village located within the concession. Although the Company believes that these issues can be resolved, there can be no assurance that will be the case. The project will continue to be on care and maintenance until the issues are resolved.

Metallurgical test were performed during 1998 on soft rock ore from Gross Rosebel. The tests have demonstrated favorable agglomeration and gold recovery characteristics for soft rock ore. Average recoveries of 88% were obtained over a 30 day leach cycle. Metallurgical tests were also completed on Gross Rosebel transition and hard rock ores, yielding average gold recoveries in the range of 40% to 50% over a 30 day period in heap leach column tests. These tests have also demonstrated that crushing to -19mm does not significantly improve gold recoveries.

For 1999, engineering costs of \$194,000 are budgeted for scoping studies which will consider heap leaching alternatives as well as other saprolite-only and staged development mining alternatives. These studies are intended to determine the viability of alternative processing designs which may make the project feasible at lower gold prices by reducing capital and operating costs. These studies are anticipated to be completed by mid 1999 and will determine scope of further evaluation work and/or development programs.

## **Antino**

The Antino property covers an area of approximately 240 km<sup>2</sup> and is located in the Sipaliwini District in southeastern Suriname along the Lawa River, on the western border of French Guiana, in the locality of Benzdorp. Benzdorp, a former gold trade center, is 240 km southeast of Paramaribo and 220 km south and upstream from Albina on the lower Marowijne River (also called Maroni River in French Guiana).

Gold bearing alluvials in the area of the Antino property were discovered in 1885. From 1895 to 1928 the Compagnie d'Or de la Guyane Hollandaise recorded production of 9,854 kg of gold from the property. During the period from 1928 to 1963, a further 2,657 kg of gold were reportedly produced. Some dredging was carried out from 1963 to 1969, after which activity was limited to local artisanal miners.

Access to the area is by air or boat. Small fixed wing aircraft may land at a maintained grass strip on an island in the Lawa River in front of the Benzdorp landing or on a recently constructed 600 metre dirt strip on the property. The entire eastern boundary of the Antino property is accessible from the Lawa River. Access into the current exploration site is by 30 km of wilderness road passable by four wheel drive vehicles. The main camp at Fatoe Switie is 17 km from the Benzdorp landing. The camp is fully equipped for up to 37 persons.

Pursuant to a letter dated January 22, 1993 the Company entered into a service contract with a local company regarding the right of reconnaissance known in Suriname as "South Benzdorp". The essential terms of the letter agreement were restated in an option agreement in 1994, by which the Company was granted the option to acquire, subject to governmental approval, a 100% interest in any right of exploration to be issued pursuant to the South Benzdorp right of reconnaissance. Assuming exercise of the South Benzdorp option, the Company must complete a feasibility study six months prior to the expiration of such rights or any extension thereof or reassign the right of exploration to the local company. In the event the Company or a related party enters into a mineral agreement with the Government of Suriname with respect to any portion of the right of exploration, the Company will be obligated to pay the local company the sum of \$50,000. The Company has also agreed to grant the local company a 10% net profits interest with respect to any portion of the right of exploration which may be brought into commercial production, subject to the Company's right to repurchase half of such entitlement, within 60 days of obtaining a right of exploitation, for the sum of \$3.0 million.

Antino represents the northernmost portion of the former 194,000 hectares South Benzdorp right of reconnaissance. It is where the Antino Right of exploration was granted to the same local company in 1996 for a period of three years. The Antino Right may be extended until 2005. The option is valid until the expiration of such right of exploration and any extension thereof. The Company has met its minimum expenditure requirement of \$250,000 and as a result, the Company may, subject to governmental approval, at any time prior to its expiration, exercise its option to acquire a 100% interest in the Antino right of exploration. The Company has spent approximately \$2.1 million in the Antino project area since its initial involvement in 1993.

Core drilling in 1996 and 1997 consisted of 46 holes totaling approximately 6,320 meters which identified relatively high grade shear hosted gold mineralization over approximately 800 meters of strike length. The Antino project remained on care and maintenance during 1998 following the Company's budgeting and prioritization process and the determination of relatively high expected exploration costs to define reserves in narrow, high grade underground targets such as Antino. Management believes that further drilling is warranted at Antino and continues to assess cost-effective means of continuing exploration, including seeking a joint venture partner for the property.

## **BHP Reconnaissance Joint Venture in Suriname**

On August 19, 1996, the Company entered into a heads of agreement with BHP Mineral International Exploration Inc. ("BHP") covering several projects in Suriname. The projects include areas covered by applications for rights of reconnaissance filed or to be filed with the Government of Suriname by the Company and BHP. The project areas may be modified by the parties from time to time. The August 1996 heads of agreement provides that BHP will have a 60% participating interest and the Company a 40% participating interest in any joint venture to be formed with respect to a specific area. BHP and the Company participate jointly in the exploration costs of each different project area on the basis of their respective deemed participating interest in any future joint venture with respect to such area. BHP and the Company may each withdraw from the agreement upon 30 days' notice.

During 1998, work was conducted on the BHP joint venture areas, particularly the Saramacca area, which hosts the Goliath anomaly identified in 1997. This work included follow up soil sampling involving a MMI (mobile metal ion) survey over previously defined BLEG (bulk leach extractable gold) anomalies and deep augering. Results provided two targets that warranted follow up. A reverse circulation drilling program of 41 holes, totaling approximately 1,170 meters, was completed over the anomalies but failed to produce any significant results.

In mid 1998, BHP relinquished its interest in the Tempati, Ulemari and part of the Saramacca areas. The Company is free to pursue exploration at these projects when warranted. The joint venture retains an interest in several areas in Suriname including Klein Saramacca and the Tapanahony/Tempati and Western Suriname reconnaissance areas. Exploration rights over several areas in Suriname have yet to be finalized and the joint venture does not intend to initiate further work programs until such time as these exploration rights are secured.

## **FRENCH GUIANA PROPERTIES**

### **General**

French Guiana is part of the French national territory and has been an overseas "Departement" of France since 1946. The Departement, with an area of 84,000 km<sup>2</sup> and a population of approximately 130,000, has two representatives in the French National Assembly and one representative in the French Senate. Under the French Constitution, French Guiana is governed by the same laws as metropolitan France, subject to modifications (including those affecting tax and mining laws and regulations) that may be adopted to reflect the historical, cultural, geographical and economic characteristics of French Guiana and provide for regional administration. French mining laws have recently undergone revisions insofar as they apply to metropolitan France. The application decrees determining the extent to which the new French Mining Code, with some modifications, applies in the French overseas departments (including French Guiana) have not been adopted yet. An appointed Prefect, representing the Government of France, holds governmental and administrative powers locally. A 19-member, locally-elected General Council votes on departmental budget and other local matters.

The granting of mining titles in French Guiana is administered, depending upon the type of mining title, by the Direction Regionale de l'Industrie, de la Recherche et de l'Environnement ("DRIRE"), the Ministry of Industry or the Conseil d'Etat. There are two different types of mining titles under French law as it currently applies in French Guiana: permits and concessions. An exploration permit conveys for a specific area of land the exclusive right of prospection and exploration for the substances to which it relates. There are two types of exploration permits, the most common of which is the "B" type permit. Type "B" permits are valid for two years and renewable twice for periods of two years each. The type "B" permit relates to a square area of 25 km<sup>2</sup> each. Type "A" permits are valid for five years and can be renewed at least once for an additional five year term. The holder of an exploration permit, whether A or B, is entitled to the issuance of an exploitation permit if such holder has demonstrated the presence of an exploitable mineral deposit within the area covered by the exploration permit. Exploitation permits are granted for a term of four years and are automatically renewed if production is actually taking place.

A mineral concession confers upon its holder an immovable right, which is distinct from the actual ownership of the underlying land for a term of up to 50 years. Concessions may be mortgaged, leased, sold or otherwise transferred or inherited, in whole or in part and may be merged or subdivided, subject to authorization for the transaction being granted by a decree issued by the French government after consultation with specific agencies.

### **Guyanor Ressources S.A.**

All of the Company's mineral interests in French Guiana are held through Guyanor, a societe anonyme incorporated under the laws of France on April 20, 1993. Guyanor's head and registered offices are located at Lot. Calimbe 2, Route du Tigre, B.P. 750, 97300 Cayenne, French Guiana.

Guyanor has interests (either directly or through its subsidiaries) in the St- Elie, Yaou, Dorlin, Paul-Isnard, Eau-Blanche and Dachine properties. All of the properties are in the exploration stage, except the Yaou and Dorlin projects which are currently undergoing comprehensive development studies.

During 1998, Guyanor spent \$4.7 million in continuing exploration and acquisition expenditures, of which \$1.2 million were reimbursed by joint venture partners and \$3.5 million was advanced by the Company. As of December 31, 1998, Guyanor owed \$3.3 million to the Company. In 1997, Guyanor had spent \$11.9 million, \$10.0 million of which was reimbursed by joint venture partners. Total budgeted exploration expenditures by Guyanor for 1999 are \$2.4 million. The Company has committed, subject to availability of adequate funding, to continue funding on a reasonable best effort basis the operations of Guyanor during 1999.

### **Yaou and Dorlin**

Pursuant to an agreement dated July 16, 1993, the Company acquired from BHP for \$4.3 million a 63.3% participating interest in a joint venture between BHP and BRGM with respect to six type "B" exploration permits covering an area known as Yaou (the "Yaou Permits") and six type "B" exploration permits covering an area known as Dorlin (the "Dorlin Permits") in French Guiana. In August 1993, the Company transferred its 63.3% participating interest in the joint venture to Guyanor at cost. Further to an agreement dated August 3, 1993, between the Company and BRGM and a subsequent agreement, dated September 23, 1993, among the Company, Guyanor and BRGM, Guyanor acquired for \$2.5 million BRGM's 36.7% interest in the joint venture assets owned for the benefit of the joint venture by BRGM. In addition, Guyanor agreed to pay to BRGM a further FF14.0 million (approximately \$2.8 million) as follows: FF7.0 million at the time of completion of a bankable feasibility study on either the Yaou or Dorlin properties and FF7.0 million at the time of commencement of commercial production on either of these properties. The transfer of the Yaou and Dorlin Permits from BRGM to Guyanor was approved by the relevant French regulatory authorities on May 25, 1994. Both BHP and BRGM are arms' length parties to Guyanor and the Company.

Guyanor and the Company entered into an option agreement with Cambior, dated as of May 11, 1994, pursuant to which Cambior was granted the option to acquire a 50% interest in an operating company which would hold the Yaou and Dorlin Permits in French Guiana. Cambior exercised the option after having spent the \$11.0 million expenditure commitment in September 1997. Since then, expenditures have been funded equally by Cambior and Guyanor. The acquisition by Cambior of any interest in the Yaou and Dorlin Permits is subject to French governmental approval. There can be no assurance that such approval will be granted. Cambior is responsible for the preparation of a feasibility study on the properties and will, if warranted, manage the development and operation of future mining operations.

Two of the 12 type "B" permits initially granted expired in February 1998. The remaining ten type "B" permits will expire in March and May 1999 and will no longer be renewable. The Societe Miniere Yaou-Dorlin ("SMYD"), a French company, was recently created. The ten remaining type "B" permits will, subject to governmental approval, be transferred to SMYD. Cambior and Guyanor will each hold 50% of the shares of SMYD. In addition, in order to preserve their rights to the Yaou and Dorlin properties, Guyanor and Cambior through their new

subsidiary, SMYD, intend to file prior to March 31, 1999 an application for two mining concessions which would cover the Yaou and Dorlin properties. Under French law, an application for a mining concession must be supported by studies, called "Memoires Techniques." The studies must provide a comprehensive framework for the development of each project, including preliminary engineering, environmental impact assessments and economic analysis of development options.

### **The Properties**

The Yaou Permits currently cover a total area of 100 km<sup>2</sup> (10,000 ha.) and are located some 210 km southwest of Cayenne. Access to the property is by helicopter or four wheel drive vehicle on 17 km of dirt road from the town of Maripasoula, which is accessible by chartered and daily scheduled fixed-wing aircraft from Cayenne.

The Dorlin Permits cover a total area of 150 km<sup>2</sup> (15,000 ha.) and are located some 180 km southwest of Cayenne and 60 km east of Maripasoula. The property is accessible by helicopter. A 500 m airstrip located on the property is suitable for fixed wing aircraft. Access is also available by boat during the rainy season.

### **Work Program**

During 1998, efforts at Yaou and Dorlin focused on reinterpretation of all geologic data, especially new core drilling data from late 1997 programs, and re-estimation of mineralized material at each project. Metallurgical test work was carried out for both Yaou and Dorlin to evaluate processing alternatives and field visits were made to begin examining possible layouts for potential mining and processing operations. This activity and other environmental and engineering work was in support of the "Memoires Techniques", or development studies, required for planned mining concession applications. The studies were initiated in the second half of 1998 and are expected to be completed by March 31, 1999. The current development concept under evaluation involves consideration of a 10,000 tonne per day milling operation at Yaou and concurrent development of a 5,000 tonne per day heap leach operation for soft rock mineralization at Dorlin. Following completion of mining at Yaou, the milling facilities would be moved to Dorlin, approximately 45 kilometers east of Yaou, where hard rock mining and milling would then begin. The studies will serve as the basis for the mining concession applications, which if granted, will preserve Guyanor's rights in the properties through the conversion of the exploration permits into mining concession. There can be no assurance that any of these applications will be granted or that the projects will be economically feasible.

During 1998, Guyanor's expenditures on Yaou and Dorlin totaled \$2.1 million, \$0.7 million of which was reimbursed by Cambior under the above-mentioned agreement. During 1997, Guyanor spent a total of \$5.5 million on the Yaou project, of which \$4.7 million was reimbursed by Cambior. Guyanor has budgeted \$0.6 million in 1999 for its shares of expenditures at Yaou and Dorlin.

### **Mineralized Material**

Cambior recently announced its year end 1998 mining reserves and mineral resources (mineralized material), restated at a \$325 gold price compared to a price of \$350 per ounce for year end 1997. For year end 1997, both Guyanor and Cambior reported their 50% share of mineral resources (mineralized material) at Yaou / Dorlin, using a \$350 gold price, as 8.4 million tonnes grading 1.9 g/t. At year end 1998, Cambior has estimated its 50% share of Yaou / Dorlin, using a \$325 gold price, as 8.2 million tonnes grading 1.9g/t.

The above results reflect work performed by Cambior to investigate the potential of mining these mineral deposits. Open pits have been modeled using reasonable slopes and using average mining and milling costs for Yaou of \$1.10 per tonne and \$7.50 per tonne respectively and using average mining and milling costs for Dorlin of \$0.90 per tonne and \$6.50 per tonne respectively. These results only reflect mineralized material from within the pits modeled.

The Company is reporting these results as mineralized material. Mineralized material does not represent reserves and has not been included in the Proven and Probable Reserve estimates because even though enough drilling and

trenching indicate a sufficient amount and grade to warrant further exploration or development expenditures, these mineral deposits do not qualify under the U.S. Securities and Exchange Commission standards as being commercially minable until further drilling, metallurgical work and other economic and technical feasibility factors based upon such work are resolved.

### **Paul-Isnard and Eau-Blanche**

On October 29, 1994, Guyanor acquired an interest in the Paul-Isnard and Eau-Blanche properties by way of the acquisition of all of the outstanding shares of Societe de Travaux Publics et de Mines Auriferes en Guyane ("SOTRAPMAG"). SOTRAPMAG holds, directly or indirectly, eight mineral concessions (the "Paul-Isnard Concessions") and four type "B" exploration permits (the "Eau-Blanche Permits"). One of the type "B" permits was relinquished in September 1998. An application for a type "A" exploration permit covering an area of approximately 326 km<sup>2</sup> was filed by Guyanor in January 1996 but it has not yet been granted. The type "A" permit would include the area covered by the four type "B" permits as well as a new area adjacent to the Paul-Isnard property. There can be no assurance that the type "A" exploration permit will be granted.

### **Joint Venture with ASARCO and LaSource**

In conjunction with Guyanor's acquisition of SOTRAPMAG, BRGM relinquished its rights under an option from Alcatel Alsthom Compagnie Generale d'Electricite to acquire any primary deposit located within the Paul-Isnard Concessions. In consideration therefore, Guyanor paid to BRGM the sum of FF2.5 million (approximately \$505,000) and LaSource Developpement S.A., a company affiliated to BRGM ("LaSource"), received an initial 25% participating interest in two joint ventures for the exploration and exploitation of primary gold deposits on the Paul-Isnard and Eau-Blanche projects. Pursuant to joint venture and option agreements entered into on June 26, 1996 by ASARCO, LaSource and Guyanor, ASARCO had the right to acquire a 50% interest in SOTRAPMAG's remaining interest in the primary deposits on each of the Paul-Isnard and Eau-Blanche projects. After discussions with Guyanor regarding the 1998 budget, ASARCO decided in May 1998 to withdraw from the joint venture. Under a termination and settlement agreement between Guyanor and ASARCO, ASARCO paid \$0.4 to Guyanor. ASARCO spent a total of \$4.3 million under the joint venture agreement on the Paul-Isnard and Eau-Blanche projects.

As at December 31, 1998, Guyanor's interest in the Paul-Isnard and Eau-Blanche projects had increased to approximately 90% as a result of LaSource's decision to not contribute its share of 1997 and 1998 exploration expenditures. Pursuant to the joint venture agreement, if LaSource's participating interest decreases below 10%, LaSource's interest converts to a 2.5% of net profits interest in each respective project.

### **The Properties**

The Paul-Isnard and Eau-Blanche properties are located in the western part of French Guiana, some 200 km west of Cayenne. The properties are accessed from St-Laurent-du-Maroni, either by air, at a distance of 75 km to the south, or by means of a 115 km-long laterite road. The first 62 km section of this road is maintained by the government and the remaining 53 km section by SOTRAPMAG.

There are two prominent mountain chains bordering the properties which form the edges of a basin in which alluvial gold deposits have accumulated. Management believes this alluvial gold originated from gold-bearing rocks from the Decou- Decou and Lucifer mountains and was transported downward by high-energy streams, concentrating the gold in the gravel beds of streams in the Citron area of the Paul-Isnard property. The Decou-Decou mountain to the south of the property is formed of volcanic rocks that, at the summit, are covered by degraded lateritic layers. The Lucifer mountain to the north-east is formed of basic intrusive rocks. The basin between the mountains is underlain by a Proterozoic sequence of mafic to felsic volcanics and clastic sediments of the Paramaca and Bonidoro groups, cut by ultramafic to felsic intrusives.

## **Work Program**

Guyanor began an exploration program in 1995 to identify what may have contributed to the formation of the alluvial gold deposits in the Paul-Isnard area followed by a core drilling program in 1996. During the first half of 1997, a ground geophysical survey, involving induced polarization, resistivity and magnetism, was carried out over the mineralized felsic unit. A second and third phase core drilling program were also completed during 1997.

On January 15, 1998, the Company and Guyanor jointly announced the results from the third phase of core drilling over the Montagne d'Or target at Paul-Isnard conducted during the second half of 1997. Twenty holes were completed during the third phase of drilling, totaling approximately 4,134 metres, with the aim of infill drilling over the known strike length of the Montagne d'Or volcanic massive sulfide (VMS) system and step out drilling to test for further strike extension, primarily to the east. All but two of the 20 holes encountered significant gold mineralization exhibiting a weighted average grade of approximately 4.6 g Au/t (high values cut to 30 g Au/t) over an average mineralized interval of approximately 5.7 metres. Three styles of gold mineralization have been confirmed at Montagne d'Or: (i) steeply dipping, semi-massive to massive sulfide zones and adjacent alteration, (ii) steeply dipping zones of disseminated sulfide mineralization, and (iii) coarse gold associated with steeply dipping quartz veins and adjacent alteration.

During the second half of 1998, Guyanor completed a geophysical survey and a limited follow-up core drilling campaign to identify and confirm semi-massive sulfide mineralization (SMS) previously intercepted in the Montagne d'Or deposit located on the Paul-Isnard property in French Guiana. Eight core holes, totaling approximately 1,600 meters, were completed to test the most robust geophysical conductors. SMS mineralization was intercepted in seven of the eight holes drilled, thereby confirming the results of the geophysical survey. The SMS zones intercepted yielded a weighted average gold grade (uncut) of 23.1 g Au/t over an average length of 1.1 meters, which were included in an average mineralized interval around these SMS zones exhibiting a weighted average grade of 4.2 g Au/t (uncut) over an average length of 6.4 meters. The results are consistent with previous drilling and have improved the confidence level for both geologic and grade continuity by reducing the drill hole spacing to a nominal 50 meters over 400 meters of strike length in the eastern half of the Montagne d'Or deposit.

Total expenditures in 1998 were \$1.0 million for Paul-Isnard and \$0.1 million for Eau-Blanche, of which \$0.1 million were reimbursed by ASARCO. Total expenditures in 1997 were \$1.8 million for Paul-Isnard and \$0.1 million for Eau-Blanche all of which was funded by ASARCO.

Exploration expenditures for Paul-Isnard of approximately \$0.5 million are budgeted for 1999. Efforts in 1999 will focus primarily on identification of additional targets to supplement what had been previously outlined at Montagne d'Or. Work will include follow-up geochemical evaluation and trenching at the Elysee target, northwest of the Montagne d'Or deposit and continued evaluation of the Montagne d'Or VMS setting. Additional work may include, subject to availability of funding, an airborne geophysical survey of the entire project area to investigate the possibility of additional geologic settings similar to that found at Montagne d'Or.

## **Mineralized Material**

In February 1998, the Company and Guyanor announced the completion of geologic modeling for the Montagne d'Or zone for the purpose of estimating mineralized inventory. This was followed by the results of an internal estimate published in the same month. A new estimate was prepared in August 1998 using more appropriate parameters taking into consideration the overall confidence of the geologic model and grade estimations given the wide spaced drilling information for the project. These studies identified the application of several inappropriate parameters in the February estimate which led to an over-estimation of open pit mineralized inventory and, to a much lesser degree, geologic inventories. The revised estimates were independently reviewed and confirmed by SRK Consulting, an international mining consulting firm, in a report dated September 3, 1998. The restatement reduced open pit mineralized inventory at the Montagne d'Or deposit at Paul Isnard from 16.3 million tonnes grading 2.5 g Au/t to 4.6 million tonnes grading 2.6 g Au/t. Geologic mineralized inventory were modified from

28.6 million tonnes grading 2.0 g Au/t to 34.7 million tonnes grading 1.4 g Au/t. Both estimates used a gold price of \$350 per ounce.

In February 1999, Guyanor updated its geologic model following the extension of one drillhole and the addition of eight drillholes. A new estimate was taking account of the additional information gained from the drilling program and the subsequent increase in confidence. Open pits were modeled using reasonable slopes and using average mining and milling cost of \$1.10 per tonne and \$9.10 per tonne respectively. The Company has estimated its 64% share of Paul-Isnard, using a \$325 gold price, as 3.9 million tonnes grading 2.8 g/t. This report only reflects mineralized material estimated to be present within the open pits modeled by the Company.

The Company is reporting these results as mineralized material. Mineralized material does not represent reserves and has not been included in the Proven and Probable Reserve estimates because even though enough drilling and trenching indicate a sufficient amount and grade to warrant further exploration or development expenditures, these mineral deposits do not qualify under the U.S. Securities and Exchange Commission standards as being commercially minable until further drilling, metallurgical work and other economic and technical feasibility factors based upon such work are resolved.

### **St-Elie**

On October 25, 1993, Guyanor entered into an agreement to acquire the St-Elie concession for FF1.0 million (approximately \$0.2 million). Guyanor also paid approximately \$0.9 million to Compagnie Miniere Esperance S.A. ("CME") in consideration for the relinquishment of certain contractual rights which CME held in the St-Elie concession. The aggregate amount of \$1.1 million represented the Company's original expenditure for the St-Elie concession and was satisfied by Guyanor's issuance of a \$1.1 million promissory note payable to the Company. This amount was canceled in March 1995 in consideration for the issuance to the Company of Guyanor shares. Pursuant to an agreement dated October 22, 1993, CME agreed to relinquish to Guyanor certain residual alluvial exploitation rights in consideration for \$0.5 million and a royalty of 5% of any fine gold extracted from the concession, up to a maximum of 3,215 ounces.

By agreement dated February 18, 1995, Guyanor transferred to ASARCO Guyane Francaise S.A.R.L. ("ASARCO") a 50% equity interest in Societe des Mines de St- Elie S.A.R.L. ("SMSE"), a company then wholly owned by Guyanor and to which the St-Elie concession was later transferred by decree of the French government dated April 24, 1996. Pursuant to the new mining code, when adopted, the concession will expire on December 31, 2018 but will be renewable for an additional period of up to 25 years. Under the agreement, \$5.4 million was spent on the St-Elie and Dieu Merci projects in 1996 and 1997, all of which was paid by ASARCO. After discussion with Guyanor regarding the 1998 budget, ASARCO decided in May 1998 to withdraw from the St-Elie and Dieu Merci projects. Under the termination and settlement agreement between Guyanor and ASARCO, ASARCO paid Guyanor \$0.6 million and ASARCO's shares in SMSE were transferred back to Guyanor. As a result, Guyanor presently holds a 100% interest in SMSE.

On February 19, 1997, SMSE and TEXMINE S.A., a French company ("Texmine") entered into an agreement pursuant to which SMSE was granted the four-year option to acquire a 100% undivided interest in three concessions and one exploration permit immediately adjacent to the St-Elie property and covering a 155 km<sup>2</sup> (15,500 ha.) area known in French Guiana as Dieu-Merci. In order to maintain its rights under the Dieu-Merci option, SMSE had to (i) make payments of FF4.0 million (\$0.7 million) in year one, FF1.5 million (\$0.2 million) in year two, FF2.5 million (\$0.4 million) in year three and FF2.5 million (\$0.4 million) in year four and (ii) incur minimum expenditures on the Dieu-Merci property of FF5.5 million (\$0.9 million) (including a 3,000 metre core drilling campaign) during year one and FF5.0 million (\$0.8 million) during each subsequent year of the option period.

On December 17, 1998, SMSE notified TEXMINE of its intention to terminate the Dieu-Merci option agreement. After several attempts to substantially reduce or eliminate the minimum commitments and property payments specified in the agreement failed, SMSE decided to withdraw from the option agreement. Management felt that, in the current business climate where cost reduction is a priority, it should instead focus its efforts on the Yaou, Dorlin,

St-Elie and Paul-Isnard projects. Following the termination of the option agreement, the owner of the Dieu-Merci project has demanded from SMSE payment of the sum of 2,000,000 French Francs (approximately \$350,000), which according to the French company is owed to it in spite of the termination of the option agreement. SMSE does not believe that such sum is owed and, will defend itself vigorously against any legal action which the French company may take to obtain payment. There can be no assurance, however, that SMSE will be successful.

As a result of the decision to withdraw from the Dieu-Merci option agreement, Guyanor recorded a write-down in the fourth quarter of 1998 of \$0.9 million of deferred exploration expenditures relating to Dieu-Merci. The termination of the Dieu-Merci option agreement had no material impact on the Company's reported mineralized material.

### **The Property**

The St-Elie concession was originally constituted by the government of France in 1889 and covers a rectangular area of 99 km<sup>2</sup> (9,900 ha.) located in north central French Guiana, 110 km west of Cayenne, the departmental capital. The Dieu-Merci property covers an area of 155 km<sup>2</sup> (15,500 ha.) adjacent to the eastern and southeastern portions of the St-Elie concession. St-Elie is located in a virtually undeveloped region of French Guiana. Access to the concession is by helicopter, airplane, or by a recently completed 20 km private road from Tigre Creek.

### **Work Program**

During 1998, Guyanor's exploration expenditures on St-Elie amounted to \$0.7 million, of which \$0.3 was reimbursed by ASARCO pursuant to the termination and settlement agreement. During 1997, Guyanor's exploration spending on the St-Elie and Dieu-Merci projects totaled \$3.3 million, all of which were reimbursed by ASARCO.

Guyanor has budgeted exploration expenses of approximately \$0.5 million at St-Elie during 1999. Exploration will focus on continued shallow auger and geochemical evaluation of an area representing approximately 75% of the St-Elie concession that has not yet been explored with the objective of defining new targets for more advanced exploration.

### **Mineralized Material**

The review of the estimates of mineralized inventory for the Michel Zone on the St-Elie project previously reported in February 1998 found that several inappropriate parameters led to the over estimation of mineralized material at St-Elie. A new geologic model and estimation of the mineralized material was completed. The new estimate is less than 50% of the February estimate, however, the reduction in mineralized material at St-Elie does not affect the Company's proven and probable mining reserves. Furthermore, the February estimate for St-Elie accounts for approximately 3% of total geologic mineralized material for the Company, therefore, the February estimates and the new lower estimates for St-Elie are not considered material in relation to the Company's total mineralized material. As a result, estimates of mineralized material at St-Elie will no longer be reported unless they become material.

### **Dachine**

The Dachine property is a square, 5x5 km area accessible only by helicopter or, during the rainy season, by canoe from Maripasoula. Microdiamonds were found for the first time in 1983 in alluvium/colluvium by BRGM during strategic prospecting work for the Mineral Inventory of French Guiana. No further exploration was conducted at Dachine until Guyanor, after examining the existing literature and conducting preliminary reconnaissance in the field, was granted a type "B" exploration permit by the French government covering a 25 km<sup>2</sup> area in southwest French Guiana known as Dachine (formerly known as Inini). An application was filed in December of 1995 for a type "A" permit covering an area of 337 km<sup>2</sup> which would include the current type "B" permit. As of today, the type "A" permit has not been granted.

In 1996 and 1997, Guyanor completed an alluvial bulk sampling program under an agreement it had with BHP Minerals International ("BHP"). A second alluvial bulk sampling program commenced after the withdrawal of BHP was completed in December 1997. The second program, designed to quickly and cost effectively recover diamonds, was intended to firstly, establish the clear presence of macrodiamonds and secondly, yield a large enough parcel, though not necessarily representative of the deposit in situ, so as to establish a preliminary distribution and quality range of macrodiamonds at Dachine.

Thirteen samples ranging in size from 3 to 17.9 bank cubic metres were collected from three creeks, one of which is located on the Dachine body while the other two are located within one kilometre to the east and west of the body. Due to logistical and budget constraints, only 27.1 cubic metres, or 32% of the total collected sample, was processed. A total of 5,142 macrodiamonds greater than 1.0 mm as measured by round aperture Antwerp sieve were recovered, ranging in size to just over 4.5mm, or 0.88 carats, and yielding a total of 73.93 carats. The size distribution of the diamonds is fairly log normal indicating the possibility that larger stones may exist. The value of the stones, which were examined by two experts in Canada and Europe, was estimated in the \$1 to \$3 per carat range. Diamond quality is a critical aspect for the Dachine project. The project was put on care and maintenance in 1998. The next phase of exploration at Dachine would consist of geological mapping and drilling to further characterize the diamond and facies variability within the body identified by the 1996 core drilling. The Company and Guyanor are continuing their efforts to secure a joint venture partner to advance the project. Until then, the project will continue to be on care and maintenance.

In 1998, \$0.2 million was spent for the care and maintenance of the project. During 1997, \$0.7 million were spent on exploration and other holding costs.

## **BRAZIL PROPERTIES**

Brazil is the fifth largest country in the world with an area of 8,510,700 km<sup>2</sup>. Most of the country is located in the tropics. The Amazon River system drains over one-half of Brazil's area. Brazil has a population of approximately 160 million and is divided into 26 states and a Federal District where the capital city of Brasilia is located. Brazil declared its independence in 1822. From 1964 to 1985, although under a military regime, Brazil experienced considerable economic growth and development. In 1985, the country returned to a democratic system. A new Constitution was implemented in 1988. Even though Brazil has a free enterprise system, there is still considerable state and semi-state participation in various strategic sectors, such as transportation and utilities. Special legislation has been enacted to privatize many companies, but the process is moving slowly. The government has recently been successful in reducing the rate of inflation. Brazil hosts the world's largest deposit, and is the world's largest producer of iron ore. Major export products include soybeans, orange juice, cocoa, coffee and manufactured goods. The Company's property interests in Brazil are located in the central and eastern Amazon region. The administrative offices of the Company are located in Brasilia. The Company has two projects in Brazil: Abacaxis and Andorinhas.

### **Abacaxis**

The Abacaxis property covers approximately 30,000 ha. and is located approximately 270 km southeast of the city of Manaus, in the District of Maués, State of Amazonas, Brazil. It is accessible by boat, small fixed-wing aircraft or helicopter. Abacaxis is in the Tapajós area, which is one of the most actively worked areas mined by garimpeiros in Brazil. At Abacaxis, narrow quartz-sulfide-gold veins cut Proterozoic metasedimentary rocks. The veins are reported to be exceptionally high grade, at more than 30 g Au/t. Adjacent wall rocks also locally contain anomalous values of gold with as much as 2 to 4 g Au/t. The area is at the margin of a failed Proterozoic rift that may have been remobilized during younger tectonic events.

The Company indirectly acquired a working right and five-year option to acquire 100% of the right, title and interest of Matapi and Ourobras to three "alvaras", or exploration licenses, issued in favor of Matapi, collectively known as the Abacaxis property. Ourobras has a preexisting joint venture agreement with Matapi with respect to the Abacaxis property. In order to keep its option and working right in force, the Company has to: (i) pay Matapi

approximately \$150,000 on December 1, 1997 and \$0.3 million on December 1, 1998 and (ii) incur expenditures on the property of at least \$0.2 million by June 19, 1997, an aggregate of \$0.5 million by June 19, 1998, an aggregate of \$1.1 million by June 19, 1999 and an aggregate of \$2.0 million by June 19, 2000. In December 1998, the option agreement was amended and the December 1998 payments were revised as follows: \$150,000 will be due each on June 1, 1999 and on December 1, 1999. The Company paid Matapi and Ourobras approximately \$0.4 million to date in connection with the option and incurred \$2.1 million in exploration expenditures.

Work plans for 1999 in Brazil consist primarily of completing the Abacaxis drilling program initiated in late 1998. A 1,700 m drilling program was just completed in early March at a cost of approximately \$200,000. The Company will be reviewing the data and evaluating means of continuing exploration beyond the first quarter program, including seeking a joint venture partner.

### **Andorinhas**

The Andorinhas project covers approximately 25,000 ha. and is located in the state of Para in the eastern Amazon near the town of Rio Maria, approximately 150 km south of the Carajas district. It is accessible by paved road to Rio Maria and then dirt road for 35 km. Scheduled planes service the city of Redencao about 100 km south of Rio Maria.

Under an agreement with Companhia Vale do Rio Doce ("CVRD") entered into in May 1996, the Company (through its wholly-owned subsidiary, Southern Star Resources Ltd.) earned the exclusive right to a 50% participating interest in an association with CVRD to be created to exploit any gold discovered on the property. This right is conditional upon the Company matching CVRD's previous exploration expenditures of R5.2 million (approximately \$4.6 million, subject to monthly adjustments to account for Brazilian inflation), completion of a positive feasibility study, and CVRD obtaining any necessary legal or governmental approvals to form an association for development and exploitation of a mine on the property. Upon making exploration expenditures of R5.2 million, the Company and CVRD must share equally in all remaining exploration and development costs or suffer dilution. Under the agreement, the Company must also evidence by November 2000 the existence of measured and/or indicated resources of approximately 1,000,000 oz. failing which the agreement will be automatically terminated. The Company has the right to terminate the agreement and let its right to form an association lapse without any further obligations at any time. In December of 1997, the Company met its R5.2 million expenditure commitment on the property. On or about January 30, 1998, CVRD indicated to the Company that it does not intend to contribute in the future its share of the programs and budgets for the project and may therefore be diluted. CVRD may change however its position in the future and elect to contribute its then proportional interest to expenditures.

As part of the agreement with CVRD, and in lieu of cash property payments to CVRD, the Company had also to reach agreements with the surface owners and occupants of portions of the land covered by the three exploration licenses comprising Andorinhas in connection with its exercise of the exploration activities. Agreements were reached with several key land owners to acquire improvements and surface right over the three principal target areas on the property, Mamao, Babacu and Lagoa Seca. Approximately \$1.3 million was paid out pursuant to these agreements in 1997 and 1998.

The agreement with the key land owners contemplated the payment by the Company of approximately \$5 million over the next two years. On November 5, 1998, the Company notified these land owners of its intention to terminate its agreement with them pursuant to which it acquired improvements and surface rights over the three principal target areas on the Andorinhas property. After several attempts to negotiate substantial reductions in these property payments with the land owners failed, the Company decided to withdraw from the agreement. Management believed that, in the current business climate where cost reduction is a priority, it was more justified to spend funds on other projects.

In February 1999, the Company sold the Santa Ines farm and certain equipment to its former owners in consideration for the reimbursement of the amount of the purchase price already paid to the former owners up to the date of termination and the release of any liability the Company may have had to the land owners in connection with the termination of the agreement mentioned in the preceding paragraph.

The Andorinhas project is being put on care and maintenance. The Company incurred a write-down in the fourth quarter of 1998 of approximately \$9.1 million of deferred exploration expenditures related to the Andorinhas project and other activities in Brazil. Total 1999 budgeted expenditures in Brazil, including certain closure and other administration costs, are estimated to be \$0.4 million.

## **AFRICAN PROPERTIES**

### **General**

All of the Company's interests in mineral properties located in Africa are held through PARC. PARC was established under the Business Corporations Act (Yukon Territory) on February 6, 1996. PARC is a wholly owned subsidiary of the Company, as a result of the Company acquiring the 19,429,282 shares of PARC held by the minority shareholders who received in exchange 388,574 common shares issued by the Company. This transaction became effective on April 21, 1998.

During 1998, approximately \$1.3 million was spent on exploration in Africa as compared to \$3.1 million in 1997. The Company has budgeted \$0.1 million for exploration and administration for its remaining projects in Africa for 1999.

### **Ivory Coast**

The Republique de Cote d'Ivoire ("Ivory Coast"), located on the southern coastline of West Africa, covers an area of 322,000 km<sup>2</sup> with a population of about 12 million people. Formerly a French colony, Ivory Coast achieved independence in 1960 and is currently governed as a democratic republic. The legal and land title systems of the country are based on French law and the official language is French.

The Company has currently three exploration permits all of which are accessible by paved road from Abidjan, the principal city in Ivory Coast. Seven exploration permits were relinquished in 1998. The exploration permits are valid for three years and are renewable twice for two additional years. At the time of each renewal, 50% of the permit area must be relinquished. The minimum expenditure requirements for the three remaining permits vary from approximately \$240,000 to \$2,200,000 over a three-year period. The two most important are Tanda and Tortiya. During 1998, PARC spent approximately \$1.1 million on the Ivory Coast projects as compared to \$0.9 million in 1997.

### **Tanda**

Tanda, a 832 km<sup>2</sup> exploration permit located in central eastern Ivory Coast, was granted to the Company in March 1996. A renewal application was filed in December 1998. Tanda was joint ventured to North Exploration (Overseas) Pty Limited ("North") in July 1998. Under the terms of the agreement, North may earn a 60% participating interest in the Tanda property by spending a minimum of \$400,000 on exploration during the first 12 months of the joint venture and it must spend at least \$3,000,000 over a total of 36 months to earn a 60% interest in the project. North also has the option of earning an additional 10% interest, for a total of 70%, by fully funding feasibility work and providing or arranging, on a best efforts basis, project financing for any eventual development. North is acting as manager and operator of the joint venture.

North initiated exploration programs in the fourth quarter of 1998 consisting of detailed geologic mapping (98 kilometers) of anomalous areas previously identified by the Company, particularly the Assoufou anomaly. Additional soil and rock sampling (449 and 417 samples, respectively) defined two other anomalous trends, Pala to the southwest of Assoufou and Babango to the northwest of Assoufou. This work was completed in anticipation of defining targets for RAB drilling in the second quarter of 1999. North has planned 9,000 meters of RAB drilling to test the main Assoufou anomaly at depth, targeting southerly and northerly dipping quartz vein sets identified in

previous trenching and road cuts. The results of this program will be used in planning additional exploration by North.

## **Tortiya**

On February 25, 1998, PARC was granted an exploration permit for diamonds covering 790 km<sup>2</sup> over an area in Ivory Coast known as Tortiya. Pursuant to an agreement dated February 19, 1998, PARC and the Company have 25% and 75% beneficial interests, respectively, in the property. Commercial diamond mining was conducted at Tortiya between 1947 and 1974 by the French company SAREMCI, which extracted over 4 million carats of gem and near-gem quality diamonds consisting of lateritic gravels overlying Early Proterozoic Birrimian metasedimentary rocks. Associated alluvial deposits were also exploited. In 1975, SAREMCI ceased mining operations due to declining grades. The deposit is currently being exploited by small-scale miners.

During 1998, exploration work included detailed geologic mapping of the area, pitting and stream sediment sampling. Both pitting and stream sediment samples were manually processed for heavy minerals on site followed by further processing in the Company's Georgetown, Guyana laboratory. The resulting heavy mineral samples were examined by mineralogists with heavy minerals of interest submitted to laboratories in Australia and Canada for SEM analysis and microprobing to determine chemical compositions. Eight microdiamonds (>0.25mm) were recovered from a 2,000 kilogram collected at depth through pitting while stream sediment sampling identified an anomalous area for G-10 garnets, an important diamond indicator mineral. These results are indicative of a possible primary diamond source in the area. A total of \$0.3 million was spent on direct project exploration expenditures in 1998. PARC has budgeted approximately \$0.08 million for work on the Tortiya property in the first half of 1999.

Work programs are being considered for 1999 which include additional pitting and stream sediment sampling in the areas of interest as well as geophysical surveys. The Company believes further work is warranted at Tortiya and is evaluating cost effective means of continuing exploration, including seeking a joint venture partner for the project.

## **Kenya**

Kenya is a former British colony which gained independence in 1963. The country has a population of approximately 28 million and covers an area of approximately 583,000 km<sup>2</sup> in East Africa. The official language is English. The government of Kenya is a democratic republic. Kenya had a vigorous gold mining industry during the early 1900's up to World War II. During the period of political turmoil in the 1950's and early 1960's leading up to independence, the Kenyan gold mining industry declined significantly. The current economy is dominated by tourism, coffee and other agricultural exports.

The Ndori property covers 1,300 km<sup>2</sup> in western Kenya on the shores of Lake Victoria, due northwest of the city of Kisumu. Access to the property is good with a major road through the center of the property and several other traversing roads.

Pursuant to an agreement dated December 12, 1996, with San Martin Mining Research and Investment Company ("San Martin") and San Martin 96 S.A., PARC was granted the immediate and exclusive right to conduct prospecting, exploration, development or related activities on properties covering an area of approximately 1,300 km<sup>2</sup> known as Ndori in the Kisumu region of Kenya. The Ndori license, which permits prospecting and exploration for gold and other precious metals, was renewed as of January 1, 1998 for a 10 year term. PARC was also granted an exclusive option to apply for and acquire a 75% or greater interest in any mining lease issued pursuant to the Ndori license and any successor rights. In order to maintain its working right and option, PARC must incur expenditures of at least \$0.6 million during each of the first and second twelve month periods of the agreement. PARC also committed to incur minimum expenditures during the third, fourth and fifth years of the agreement sufficient to maintain the Ndori License in good standing.

The geology of the Ndori property is an extension of the Lake Victoria Gold Field to the south in Tanzania, with the property lying within a well differentiated suite of Archean volcanics. Available geologic data from previous

exploration programs by the United Nations Development Program and previous owners suggest the potential for quartz reef hosted, shear zone hosted and intrusive related gold mineralization. Approximately 40 old mines have been exploited on the property, 20 of which included milling facilities.

As a result of the Company's budgetary prioritization process, the Ndori property has been placed on care and maintenance at a cost of approximately \$4,000 per month. As a result, \$0.2 million was spent in 1998 compared to \$0.8 million in 1997. PARC is actively seeking a joint venture partner for the project.

### **ITEM 3. LEGAL PROCEEDINGS**

Except as disclosed in Item 2 under Omai Mine and under St-Elie, there are currently no material pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of its properties or those of any of its subsidiaries is subject. The Company and its subsidiaries are, however, engaged in routine litigation incidental to their business. No material legal proceedings involving the Company are pending, or, to the knowledge of the Company, contemplated, by any governmental authority. The Company is not aware of any material events of non-compliance with environmental laws and regulations. The exact nature of environmental control problems, if any, which the Company may encounter in the future cannot be predicted, primarily because of the changing character of environmental requirements that may be enacted within foreign jurisdictions. For a description of the type of legal and regulatory environment in which the Company does business, see "Item 1. Description of Business - Risk Factors" and "Item 2. Description of Properties - General".

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**Executive Officers of the Registrant**  
(as of March 12, 1999)

The executive officers of the Company, their ages and their business experience and principal occupations during the past five years are:

Name	Age	Office and Experience	Officer Since
James E. Askew	50	President and Chief Executive Officer of the Company since March 1999; prior thereto President and Chief Executive Officer Rayrock Resources from September 1998 to March 1999; from 1997 to present, President and Chairman of International Mining and Finance Corporation; from 1986 to 1996, President and Chief Executive Officer of Golden Shamrock.	1999
Gordon J. Bell	41	Vice President and Chief Financial Officer of the Company since November 1995; prior thereto, Vice President and Director, RBC Dominion Securities Inc. from October, 1994; Vice President, RBC Dominion Securities Inc. from December, 1991 to October 1994.	1995
Carlos H. Bertoni	47	President of Guyanor Ressources S.A. since December 1998; Vice President, Brazil since June 1997, prior thereto Vice President, Exploration (Eastern Division) since 1993.	1993
Louis O. Peloquin	41	Vice President, General Counsel and Secretary of the Company since June 1993.	1993
Hilbert N. Shields	43	Vice President, Guyana since June 1997 and prior thereto Vice President, Exploration (Western Division) since 1993.	1993
Richard A. Winters	36	Vice President, Corporate Development since August 1995; prior thereto Senior Analyst, Robertson Stephens & Co. from August 1994; prior thereto Senior Engineer, Phelps Dodge Mining Co. from January 1993 to August 1994.	1995

## PART II

### **ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED**

#### **STOCKHOLDER MATTERS**

The Company's common shares are listed on the Toronto Stock Exchange ("TSE") under the trading symbol GSC and the American Stock Exchange ("AMEX") under the trading symbol GSR. As at March 12, 1999, 30,292,249 common shares were outstanding and the Company had 837 shareholders of record. On March 12, 1999, the closing sale price per share for the Company's common shares, as reported by the TSE was Cdn\$1.25 and as reported by the AMEX was \$0.81. The following table sets forth, for the periods indicated, the high and low market closing prices per share of the Company's common shares as reported by the TSE and the AMEX.

	Toronto Stock Exchange		American Stock Exchange	
	Cdn\$ High ----	Cdn\$ Low ---	\$ High ----	\$ Low ---
1998:				
First Quarter	7.00	4.00	4.81	2.75
Second Quarter	6.50	3.05	4.50	2.06
Third Quarter	3.10	1.51	2.19	0.94
Fourth Quarter	4.10	1.45	2.75	0.94
1997:				
First Quarter	22.45	14.25	16.75	10.13
Second Quarter	14.80	9.25	10.63	6.50
Third Quarter	11.00	5.55	8.13	4.00
Fourth Quarter	9.65	3.20	3.56	2.19

The Company has not declared or paid cash dividends on its common shares since its inception. The Company's dividend policy is reviewed from time to time by its Board of Directors. Future dividend decisions will consider then current business results, cash requirements and the financial condition of the Company.

#### **CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

The following summarizes the principal Canadian federal income tax considerations applicable to the holding and disposition of a common share of the Company (a "Common Share") by a holder (the "Holder") of one or more Common Shares who is resident in the United States of America and holds the Common Shares as capital property. This summary is based on the current provisions of the Canada-United States Income Tax Convention (1980) (the "Treaty"), Income Tax Act (Canada) (the "Tax Act"), the regulations thereunder and all amendments to the Tax Act publicly proposed by the government of Canada to the date hereof. It is assumed that each such amendment will be enacted as proposed and there is no other relevant change in any governing law, although no assurance can be given in these respects.

Every Holder is liable to pay a withholding tax on every dividend that is or is deemed to be paid or credited to him on his Common Shares. Under the Treaty, the rate of withholding tax is 5% of the gross amount of the dividend where the Holder is a company that owns at least 10% of the voting stock of the Company and beneficially owns the dividend, and 15% in any other case.

Under the Tax Act, a Holder will not be subject to Canadian tax on any capital gain realized on an actual or deemed disposition of a Common Share, including a deemed disposition at death, provided that he did not hold the Common Share as capital property used in carrying on a business in Canada, and that neither he nor persons with whom he did not deal at arm's length alone or together owned 25% or more of the issued shares of any class of the Company at any time in the five years immediately preceding the disposition.

A Holder who is liable under the Tax Act for Canadian tax in respect of a capital gain realized on an actual or deemed disposition of a Common Share will be relieved under the Treaty from such liability unless

(a) the Common Share formed part of the business property of a permanent establishment or fixed base in Canada that the Holder has or had within the twelve-month period preceding the disposition, or

(b) the Holder

(i) was resident in Canada for 120 months during any period of 20 consecutive years preceding the disposition, and

(ii) was resident in Canada at any time during the ten years immediately preceding the disposition, and

(iii) owned the Common Share when he ceased to be a resident of Canada.

This summary is of a general nature and is not intended, nor should it be construed, to be legal or tax advice to any particular Shareholder. SHAREHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE INCOME AND OTHER TAX CONSEQUENCES ARISING IN THEIR PARTICULAR CIRCUMSTANCES.

## **CERTAIN UNITED STATES INCOME TAX CONSIDERATIONS**

### **Passive Foreign Investment Company Rules**

Under the United States Internal Revenue Code of 1986, as amended (the "Code"), the Company may be classified as a passive foreign investment company (a "PFIC"). U.S. shareholders of a PFIC are subject to certain adverse tax consequences. These consequences can be mitigated, under certain circumstances, if the U.S. shareholder makes a timely election to treat the Company as a "qualified electing fund" (a "QEF"). ALL U.S. SHAREHOLDERS ARE THEREFORE URGED TO CONSULT THEIR OWN TAX ADVISORS ABOUT THE ADVISABILITY OF MAKING A QEF ELECTION WITH RESPECT TO THE COMPANY. ALL U.S. SHAREHOLDERS ARE ALSO URGED TO CONSULT THEIR OWN TAX ADVISERS ABOUT THE POSSIBILITY OF CREDITING CANADIAN TAXES PAID AGAINST U.S. TAX PAYABLE.

### **Definition of a PFIC**

A PFIC is a corporation not formed in the United States (a "Non-U.S. Corporation") and either (i) 75% or more of its gross income is passive income or (ii) 50% or more of the average value of its assets produce, or are held for the production of, passive income. Passive income for these purposes includes interest, dividends, and certain rents and royalties. For purposes of the foregoing tests, if a Non-U.S. Corporation owns at least 25% by value of the stock of another corporation, it is treated as if it instead owned its proportionate share of the other corporation's assets and received directly its proportionate share of the other corporation's income.

The Company has been advised by PricewaterhouseCoopers LLP that it should not be treated as a PFIC with respect to shares purchased by U.S. shareholders during 1993, 1994, 1995, 1996, 1997 and 1998, although it could potentially be a PFIC with respect to shares acquired by U.S. shareholders prior to 1993. The Company also intends to engage PricewaterhouseCoopers LLP in the future to analyze whether it is a PFIC in 1999 and subsequent years and will continue to notify shareholders of the results of such future analyses. The PFIC analysis involves a complex analysis of many factors, including, among other things, the price of gold and the cash flow of OGML. For example, without increasing the amount of income and assets that produce active income through the development or acquisition of producing mines, a modest increase in these specific factors could result in our becoming a PFIC.

## **Consequence of PFIC Classification if No QEF Election Made**

If the Company is classified as a PFIC, U.S. shareholders who do not make timely QEF Elections (as discussed below) will be subject to a number of special adverse tax rules. For example, gain recognized on disposition of PFIC stock or the receipt of an "excess distribution" from a PFIC is (i) treated as if it were ordinary income earned ratably on each day in the taxpayer's holding period for the stock at the highest marginal rate in effect during the period in which it was deemed earned and (ii) subject to an interest charge as if the resulting tax had actually been due in such earlier year or years. (An excess distribution is the amount of any distribution received by the U.S. shareholder during the taxable year that exceeds 125% of the immediately preceding three year average of distributions received from the corporation, subject to certain adjustments.) Proposed United States Treasury Regulations broadly define a disposition to include any transaction or event that constitutes an actual or deemed transfer of property for any purpose under the Code, including (but not limited to) a sale, exchange, gift, transfer at death, and the pledging of PFIC stock to secure a loan. If the tax described above is not imposed on a transfer at death, the recipient of the PFIC stock receives a basis in the transferred stock equal to the lesser of the fair market value or the adjusted basis of the stock in the hands of the shareholder immediately before death. Finally, the foregoing rules will continue to apply with respect to a U.S. shareholder who held the stock of the Company while the Company met the definition of a PFIC even if the Company ceases to meet the definition of a PFIC.

The proposed PFIC regulations herein were proposed to be effective in April 1992 and may apply to all post-1986 years. However, there can be no assurance that such regulations will be adopted in their present form.

## **Consequences of PFIC Classification if QEF Election Made**

Most of the foregoing adverse tax consequences can be avoided if (i) the U.S. shareholder makes a timely election to treat the Company as a QEF (a "QEF Election") for the first year of the shareholder's holding period in which the Company is a PFIC (or in a year for which the Shareholder also makes the "Deemed Sale Election" described below) and (ii) the Company provides the U.S. shareholder with a "PFIC Annual Information Statement" pursuant to Temporary Regulations issued by the Internal Revenue Service. U.S. shareholders of a PFIC who make a QEF Election, however, will be taxable currently on their pro rata share of the PFIC's ordinary earnings and net capital gain, unless they make a further election to defer payments of tax on amounts included in income for which no distribution has been received (subject to an interest charge). Special adjustments are provided to prevent inappropriate double taxation of amounts so included in a U.S. shareholder's income upon a subsequent distribution or disposition of the stock.

A U.S. shareholder makes a QEF Election by filing a Form 8621 with its tax return. In the case of stock owned through a U.S. entity, the election generally must be made at the entity level. A QEF Election must be filed by the due date (taking into account extensions) for filing the U.S. shareholder's income tax return for the taxable year for which the election is made. A copy of the Form 8621 must also be filed with the Philadelphia Internal Revenue Service Center. Once made, the election is effective for the shareholder's taxable year for which it is made and all subsequent taxable years, and may not be revoked without consent of the Secretary of the Treasury. If a U.S. shareholder wishes to make a QEF Election subsequent to the first year of his holding period for stock of a Non-U.S. Corporation that is a PFIC, the U.S. shareholder may further elect to recognize gain (the "Deemed Sale Election") as if it had sold the QEF stock on the first day of the taxable year in which the QEF election is made if (i) the U.S. shareholder holds stock in the PFIC on that day and (ii) the shareholder can establish the fair market value of such stock on that day.

In the event that the Company is classified as a PFIC, the Company intends to comply with the reporting requirements prescribed by Temporary Treasury regulations. In particular, the Company will maintain information so that the ordinary earnings and net capital gains of the Company may be determined. However, future regulations may contain reporting and record-keeping requirements that are so onerous that it would not be practicable for the Company to comply. If, after review of the requirements, the Company determines that it would not be practicable to comply, it will so notify its shareholders.

## **Mark to Market Election**

Under the recently enacted Taxpayer Relief Act of 1997, a U.S. holder of "marketable stock" under the PFIC rules may be able to avoid the imposition of the special tax and interest charge by making a "mark-to-market election". Generally, pursuant to this election, such U.S. holder would include in ordinary income, for each taxable year during which such stock is held, an amount equal to the increase in value of the stock, which increase will be determined by reference to the value of such stock at the end of the current taxable year as compared with its value as of the end of the prior taxable year. U.S. holders desiring to make the mark-to-market election should consult their tax advisors with respect to the application and effect of making such election.

## **Taxation of Dividends on the Company's Stock**

Subject to the PFIC rules described above for U.S. Federal income tax purposes, dividends paid by the Company (including any Canadian tax withheld thereon) will constitute ordinary dividend income to the extent of the Company's current or accumulated earnings and profits as determined for U.S. Federal income tax purposes, and to the extent in excess of earnings and profits, will first be applied against and reduce the shareholder's basis in such holder's stock, and to the extent in excess of such basis will be treated as gain from the sale or exchange of property. Because the Company is not a U.S. corporation, dividends that it pays will not be eligible for the dividends-received deduction provided for in Section 243 of the Code. If a U.S. shareholder receives a dividend payment in any currency other than U.S. dollars, the amount of the dividend payment for United States Federal income tax purposes will be the U.S. dollar value of the dividend payment (determined at the spot rate on the date of such payment) regardless of whether the payment is in fact converted into U.S. dollars. In such case, U.S. shareholders may recognize ordinary income or loss as a result of currency fluctuations during the period between the date of a dividend payment and the date such dividend payment is converted into U.S. dollars.

Subject to the limitations provided in the Code, the Canadian tax withheld with respect to such dividends should be eligible for the benefits of the foreign tax credit rules of the Code. A shareholder who does not elect the benefits of the foreign tax credit provisions of the Code will be entitled to a deduction for the amount of the Canadian tax withheld.

## **ITEM 6. SELECTED FINANCIAL DATA**

The selected financial data set forth below are derived from the audited consolidated financial statements of the Company for the years ended December 31, 1998, 1997, 1996, 1995 and 1994, included elsewhere herein, and should be read in conjunction with those financial statements and the footnotes thereto. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). For United States GAAP reconciliation items, see the attached consolidated financial statements and notes. Reference should also be made to "Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations".

**Summary of Financial Condition Data at End of Period**

(Amounts in thousands except per share data)

	As of December 31, 1998	As of December 31, 1997	As of December 31, 1996	As of December 31, 1995	As of December 31, 1994
Working capital	\$ 6,516	\$ 16,427	\$ 15,287	\$ 11,092	\$ 34,940
Current assets	8,216	20,152	22,182	16,074	38,603
Total assets	68,597	89,122	96,283	77,609	85,540
Current liabilities	1,700	3,725	6,895	4,982	3,663
Shareholders' equity	\$ 58,471	\$ 79,557	\$ 78,094	\$ 68,388	\$ 79,695

  

	For the Year Ended December 31, 1998	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996	For the Year Ended December 31, 1995	For the Year Ended December 31, 1994
Revenue	\$ 635	\$ 1,698	\$ 2,801	\$ 5,590	\$ 2,736
Net loss	(22,248)	(26,584)	(7,780)	(12,181)	(8,785)
Net loss per share	\$ (0.74)	\$ (0.92)	\$ (0.31)	\$ (0.54)	\$ (0.42)

Note: Golden Star did not pay any cash dividends during the fiscal years indicated above.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND****RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and related notes. The financial statements have been prepared in accordance with Canadian GAAP. For the U.S. GAAP reconciliation, see attached consolidated financial statements, as well as "Results of Operations" below.

**Cautionary Statement for Purposes of Reform Act**

The following contains certain forward-looking statements within the meaning of the Reform Act. Actual results, performance or achievements of the Company could differ materially from those projected in the forward-looking statements due to a number of factors, including those set forth under "Risk Factors" and elsewhere in this Annual Report on Form 10-K. Readers are cautioned not to put undue reliance on forward-looking statements. The Company disclaims any intent or obligation to update publicly these forward-looking statements, whether as a result of new information, future events or otherwise.

## RESULTS OF OPERATIONS

### Overview

The Company's current business activity focus is the exploration and development (if warranted) of precious metal and diamond deposits within specific geological domains. Under Canadian GAAP, expenditures relating to these activities are capitalized in recognition of the potential future value of prospective targets. Upon completion of the exploration phase, a decision to proceed to the development phase requires that these expenditures reflect the cost of the resultant reserves and be depleted on the unit of production basis over the estimated total reserve to be mined. A decision to discontinue exploration or not to proceed to the development stage for a specific project would result in reducing the capitalized total cost of the exploration program and charging those costs against income. As such, reported net income or loss for the Company may be volatile and principally represents investment revenues received through the investment of idle funds, the surplus received on redemption of preferred shares in OGML held by the Company, and other revenues, as offset by those expenditures which cannot be directly attributed to a specific project and those costs for projects the Company has elected to abandon.

Under U.S. GAAP, exploration and general and administrative expenses related to projects are charged to expense as incurred, whereas under Canadian GAAP, such expenses are capitalized as discussed above. Property acquisition costs are deferred for both Canadian and U.S. GAAP until it is determined whether a project is commercially feasible. In addition, under U.S. GAAP, compensation expense is recorded for the excess of the quoted market price over the option price granted to employees and directors at the date of grant under stock option plans. Under Canadian GAAP, no compensation expense is recorded for such awards. The gains on issuance of subsidiary's common stock recorded under Canadian GAAP in respect of the PARC and Guyanor equity financings would not be recorded under U.S. GAAP. Under U.S. GAAP, accrued severance and social charges resulting from the shut-down of alluvial mining operations at SOTRAPMAG would not have been recorded as of December 31, 1996, as the requirements for accrual were not satisfied.

The effect of the differences in accounting under Canadian GAAP and U.S. GAAP on the statement of net loss is as follows:

	For the Years Ended December 31,		
	1998	1997	1996
	----	----	----
Net loss under Canadian GAAP	\$ (22,248)	\$ (26,584)	\$ (7,780)
Net effect of the deferred exploration expenditures on loss for the period	4,901	1,189	(10,231)
Effect of recording compensation expense under stock option plans	-	(83)	(85)
Foreign exchange loss	26	92	(2)
Reversal of the gain on subsidiary's issuance of common stock	-	-	(7,719)
Reversal of the loss for severance accruals	-	(1,115)	1,115
Effect of Omai Preferred Share Redemption	788	1,152	520
	-----	-----	-----
Loss under U.S. GAAP before minority interest	(16,533)	(25,349)	(24,182)
Minority interest as adjusted	1,138	(1,489)	(1,097)
	-----	-----	-----
Net Loss under U.S. GAAP	\$ (15,395)	\$ (26,838)	\$ (25,279)
Other comprehensive income foreign exchange loss	(26)	(92)	2
	-----	-----	-----
Comprehensive income	(15,421)	(26,930)	(25,277)
	=====	=====	=====
Basic and diluted net loss per share under U.S. GAAP	\$ (0.51)	\$ (0.94)	\$ (1.00)
	=====	=====	=====

The Company currently has limited cash resources. See "Item 1. - Risk Factors - Risks associated with our limited financial resources" and "Liquidity and Capital Resources" and "Outlook" below.

## 1998 Compared to 1997

The Company reported a net loss of \$22.2 million in 1998 as compared to a net loss of \$26.6 million in 1997. During 1998, the Company recorded property abandonment charges of \$16.6 million, including \$2.6 million and \$3.7 million, respectively, from the relinquishment of certain diamond and gold properties in Guyana, \$0.9 million for the Dieu Merci in French Guiana, \$8.8 million for the Andorinhas project and \$0.3 million for other properties in Brazil, and \$0.2 million related to various property interests in Bolivia. The abandonment of these projects was the result of several factors including exploration results and the assessment and prioritization of exploration projects by Management to ensure continued focus on the most promising projects in the Company's portfolio in light of limited capital available to fund exploration projects. The objective of the project prioritization is to ensure continued funding of projects that the Company believes would offer the greatest potential for meaningful results and new reserves and mineralized material. Of the \$16.6 million of property abandonments described above, \$16.4 million were recorded in the fourth quarter of 1998. The abandonments taken in the fourth quarter resulted from the company's review of exploration results to date, prioritization of projects, and results of negotiations with property owners.

The Company's consolidated share of the write-downs for Guyanor was \$0.7 million, net of the minority shareholders' portion of the loss.

Total revenues in 1998 decreased to \$0.6 million as compared to \$1.7 million in 1997 due to the shutdown of the alluvial mining operations at SOTRAPMAG in April 1997 and the lower interest income earned. Interest and other revenues decreased from \$1.3 million in 1997 to \$0.6 million in 1998 due to the decrease in the average cash balance invested during 1998 as compared to 1997 combined with lower interest rates during the period. Cost of goods sold were nil for 1998 as compared to \$1.0 million for 1997 as a result of the discontinuation of production at SOTRAPMAG during 1997, with no revenue from gold sales in 1998, compared to revenue of \$0.4 million in 1997. SOTRAPMAG's cost of goods sold exceeded revenues in 1997 by \$0.5 million.

General and administrative expenditures totaled \$7.7 million for 1998, as compared to \$8.9 million for 1997. The decrease in general and administrative expenditures resulted from a \$1.8 million reduction in expenses due to the Company's ongoing cost reduction efforts offset by the \$0.6 million paid to David Fennell under a separation and release agreement. Depreciation expense decreased \$0.3 million as a result of the decrease in the depreciable asset base due to the write-down of equipment at SOTRAPMAG.

OGML, in which the Company maintains a 30% common share equity interest, reported net income of \$3.5 million for the year ended December 31, 1998, compared to a net income of \$5.8 million for the year ended December 31, 1997. The Omai Mine produced 327,546 oz of gold in 1998 versus 338,496 oz of gold in 1997. Decreased gold grades and a lower than expected recovery rate were the reason for the decrease in production in 1998. Approximately \$1.7 million was distributed to the Company in 1998 via the redemption of Class I preferred shares of OGML, as compared to \$2.5 million during 1997.

Under the equity method of accounting, the Company is required to record its share of OGML's losses to the extent that the losses do not exceed the cost of the common share investment in OGML. Accordingly, the Company has not recorded the loss amount, and will commence recognition of future income when its share of accumulated income exceeds its share of accumulated losses. As of December 31, 1998, the Company's share of cumulative equity loss was \$0.6 million as compared to \$1.5 million as at December 31, 1997.

Various factors, such as market price fluctuations of gold, increased production costs and/or reduced recovery rates may render ore reserves uneconomic or may ultimately result in a restatement of ore reserves or asset write-downs. Moreover, short-term factors relating to the ore reserves, such as the need for orderly development of ore bodies, the processing of variable ore grades, and/or other potential problems may impair the profitability of the Omai Mine.

## 1997 Compared to 1996

The Company reported a net loss of \$26.6 million in 1997 as compared to a net loss of \$7.8 million in 1996. During 1997, the Company recorded property abandonment charges of \$22.4 million, including \$4.2 million and \$4.4 million, respectively, from the relinquishment of certain diamond and gold properties in Guyana, \$0.7 million from the write-off of certain diamond properties in Suriname, \$1.0 million for the Regina Est property and \$0.4 million for other property areas in French Guiana, \$2.8 million for portions of property areas in Cote d'Ivoire, \$3.4 million for projects in Mali, \$2.0 million for the Galla Valley project, \$1.2 million for certain gold properties in Brazil and \$2.1 million related to various property interests in Bolivia. The abandonment of these projects was the result of several factors including exploration results and the assessment and prioritization of exploration projects by management to ensure continued focus on the most promising projects in the Company's portfolio. The objective of the project prioritization is to ensure continued funding of projects that the Company believes would offer the greatest potential for meaningful results and generating reserves and mineralized material. Of the \$22.4 million of property abandonments described above, \$12.9 million were recorded in the fourth quarter of 1997.

The Company's consolidated share of the write-downs for Guyanor and PARC were \$1.0 million and \$5.4 million, respectively, net of minority shareholders' portion of the loss.

The Company, through Guyanor, incurred impairment losses totaling \$1.5 million in 1997 for certain inventories and fixed assets at SOTRAPMAG related to the shutdown of alluvial mining operations at SOTRAPMAG. These losses were offset by gains of \$0.3 million from the sale of certain equipment from SOTRAPMAG. The Company's consolidated share of these losses was \$0.8 million, net of the minority shareholders' portion of the loss.

Total revenues in 1997 decreased to \$1.7 million as compared to \$2.8 million in 1996 principally due to the shutdown of the alluvial mining operations at SOTRAPMAG in April 1997. Interest and other revenues increased from \$1.1 million in 1996 to \$1.3 million in 1997 due to the increase in the average cash balance invested during 1997 as compared to 1996. Cost of goods sold decreased to \$1.0 million for 1997 as compared to \$4.1 million for 1996 as a result of the discontinuation of production at SOTRAPMAG during 1997, with revenue from gold sales in 1997 of \$0.4 million, compared to revenue of \$1.7 million in 1996. SOTRAPMAG's cost of goods sold exceeded revenues in 1997 by \$0.5 million and in 1996 by \$2.4 million.

General and administrative expenditures totaled \$8.9 million for 1997, as compared to \$9.1 million for 1996. Depreciation expense decreased \$0.5 million as a result of the decrease in the depreciable asset base due to the write-down of equipment at SOTRAPMAG.

OGML, in which the Company maintains a 30% common share equity interest, reported net income of \$5.8 million for the year ended December 31, 1997, compared to a net income of \$2.7 million for the year ended December 31, 1996. The Omai Mine produced 338,496 oz of gold in 1997 versus 254,950 oz of gold in 1996. The commissioning of the expanded mill facilities in the third quarter of 1996 contributed to higher production levels in 1997. Approximately \$2.5 million was distributed to the Company in 1997 via the redemption of Class I preferred shares of OGML, as compared to \$1.1 million during 1996.

Under the equity method of accounting, the Company is required to record its share of OGML's losses to the extent that the losses do not exceed the cost of the common share investment in OGML. Accordingly, the Company has not recorded the loss amount, and will commence recognition of future income when its share of accumulated income exceeds its share of accumulated losses. As of December 31, 1997, the Company's share of cumulative equity loss was \$1.5 million as compared to \$2.7 million as at December 31, 1996.

## **LIQUIDITY and CAPITAL RESOURCES**

Consolidated cash and short-term investments as of December 31, 1998 of \$7.4 million decreased \$10.0 million from \$17.4 million as of December 31, 1997. The reduction is a result of the Company's net exploration expenditures of \$9.6 million in 1998 offset by Omai preferred share redemptions of \$1.7 million, a loan from OGML of \$3.1 million, transfer of Eagle Mountain concession to OGML in exchange for \$0.08 million and other

working capital changes. Working capital as of December 31, 1998 decreased by \$9.7 million to \$6.7 million from \$16.4 million as of December 31, 1997.

On December 23, 1998, OGML, as part of the purchase from the Company of the Eagle Mountain project, advanced to the Company \$3.17 million, as an unsecured non-interest bearing loan to be repaid on a dollar-for-dollar basis as and when Class I preferred shares of OGML held by GSR shall be redeemed by OGML from time to time. The loan is non-interest bearing until September 30, 2010; after this date the loan bears interest at the US dollar prime rate per annum, calculated and compounded quarterly until repayment in full with interest on overdue interest at the same rate. Of the \$1.7 million of Class I preferred shares redeemed in 1998 approximately \$0.2 million was used to reduce the outstanding loan balance. OGML has budgeted for the redemption of \$1.3 million of Class I preferred shares in OGML to be paid to the Company during 1999, compared to \$1.7 million received in 1998.

Product and supplies inventories, accounts receivable and other current assets decreased \$1.8 million during the year resulting primarily from a decrease in outstanding accounts receivable due to reduced exploration spending in 1998 and collection of outstanding balances owed upon the termination of two joint ventures.

Cash used in investing activities of \$7.5 million in 1998 decreased from \$19.6 million in 1997 primarily due to the decrease in exploration expenditures related to the Company's operations in South America and Africa.

Cash provided by financing activities in 1998 decreased to \$5.2 million from \$29.9 million in 1997. The decrease results primarily from share offerings by the Company in 1997 which did not recur in 1998, offset by the issuance of long-term debt for the transfer of the Eagle Mountain property to OGML for proceeds of \$3.1 million. Share capital increased by \$1.2 million in 1998, compared with \$28.0 million in 1997, reflecting proceeds from warrant exercises and the May 1997 common stock offering which did not recur in 1998.

On August 8, 1997, the Company filed with the SEC a shelf registration statement on Form S-3 (the "Registration Statement"), with respect to the proposed issuance by the Company from time to time of up to \$47,687,500 of its common shares, preferred shares, convertible debt securities and/or warrants. The Registration Statement also includes \$52,312,500 in securities previously registered by the Company pursuant to a Registration Statement declared effective by the SEC on November 8, 1996.

On August 13, 1997, the Company filed with nine Canadian provincial securities commissions a short-form shelf prospectus, with respect to the proposed issuance by the Company from time to time of up to 12 million common shares and/or 12 million common share purchase warrants and a short-form shelf prospectus with respect to the proposed issuance from time to time of up to \$100 million of convertible debt securities. The Canadian prospectuses relate to the same securities being registered with the SEC.

No shares had been issued under either Registration Statement or the Canadian prospectus as of March 13, 1999, and there can be no assurance that the Company can raise capital using the Registration Statement or the prospectus.

#### **Guyanor Ressources S.A.**

Total exploration expenditures for the year ended December 31, 1998, amounted to \$4.7 million, offset by joint venture recoveries of \$1.2 million, compared to 1997 expenditures of \$11.9 million, offset by 1997 joint venture recoveries of \$10.0 million. Guyanor recorded property write-downs of \$0.9 million in 1998 related to the relinquishment of the Dieu Merci Project as compared to \$1.0 million related to the relinquishment of the Regina Est property and \$0.4 million related to the write-down of other projects in 1997.

On June 12, 1998, the Company acquired an additional 2,380,000 Class B common shares of Guyanor at a price of FF9.53 or Cdn\$2.314. The total consideration of FF22,681,400 or Cdn\$5,579,624 for the shares was satisfied by reducing the receivable for the equivalent amount of funds advanced to Guyanor by the Company. The transaction resulted in an increase in the Company's interest in Guyanor from 69.3% to 71%.

As of December 31, 1998, the Company owned approximately 71% of the outstanding common shares of Guyanor.

A preliminary budget prepared by Guyanor estimates total spending for 1999 of approximately \$4.0 million with recoveries from joint venture partners of approximately \$0.7 million for net expenditures of \$3.3 million. As at December 31, 1998, Guyanor had \$0.1 million in cash. Net expenditures are expected to be funded by cash on hand, receivables from joint venture partners for work conducted in 1998 and from working capital provided by Golden Star. Golden Star has committed to provide sufficient working capital to fund all of Guyanor's operations for 1999, however, it will be necessary for additional capital to be obtained by Guyanor or Golden Star for these expenditures to be funded.

## **Guyana**

Total 1998 spending on the Company's projects in Guyana amounted to \$0.9 million with joint venture recoveries of \$0.1 million, compared to 1997 spending of \$3.6 million. During 1998, the Company incurred \$6.4 million of property abandonment charges related to various gold and diamond properties. The Company has budgeted approximately \$0.4 million for administration and limited exploration in Guyana during 1999.

## **Suriname**

Activities in Suriname during 1998 focused principally on the Gross Rosebel gold project in joint venture with Cambior. Total Suriname spending in 1998 amounted to \$2.0 million, offset by joint venture recoveries of \$1.0 million, as compared to 1997 spending of \$11.8 million, which was offset by joint venture recoveries of \$4.7 million. Budgeted 1999 exploration and acquisition expenditures for Suriname are \$0.9 million, with budgeted joint venture recoveries of \$0.4 million. Expenditures at the Gross Rosebel project are shared equally between the Company and Cambior.

A study of the Gross Rosebel project was completed in May 1997 as required by the agreement and then updated. The study estimated the project's proven and probable gold reserves at 48.6 million tonnes grading 1.6 g Au/t, representing 2.43 million oz in situ using a gold price of \$400 per ounce. Reserves have been subsequently restated as mineralized material using a gold price of \$325 per ounce resulting in 41.4 million tonnes grading 1.6 g Au/t, representing approximately 2.15 million ounces in situ. Capital costs for development of the mine are estimated in the study at \$175 million. Cambior is obligated to use its best efforts to arrange debt financing for 65% of mine construction and related costs, with the Company and Cambior each contributing 50% of the remainder of such costs. The Company's share of total mine development costs for Gross Rosebel, based on the feasibility study and subsequent modifications, is estimated at approximately \$25.0 million. Development of the Gross Rosebel project has been postponed pending resolution of certain development issues and improvement in gold prices. The Company has not budgeted for any of the \$25.0 million development expenditures in 1999. At such time as the decision is made to proceed with the development of Gross Rosebel, the Company will evaluate various funding alternatives including the issuance of debt or equity securities or the sale of other assets to fund the \$25.0 million development cost. The Company and Cambior are also investigating alternative mining and processing methods such as heap leaching which may lower capital and for operating costs and enhance the project's economic returns.

## **Brazil and Bolivia**

During 1998, the Company spent approximately \$1.2 million on exploration and project acquisition, compared to \$7.1 million in 1997. Anticipated reconnaissance and exploration expenditures for 1999 of \$0.5 million relate primarily to exploration efforts and property acquisition costs for the Abacaxis project in Brazil. The Company recorded property write-offs of \$8.8 million for the Andorinhas project and \$0.3 million for other projects in 1998.

The Company recorded property write-downs of \$0.2 million in 1998 as a result of relinquishment of the other properties in Bolivia.

## **Pan African Resources Corporation**

On April 21, 1998, the Company completed a Plan of Arrangement that resulted in the purchase of all of the outstanding shares held by minority shareholders of Pan African Resources Corporation ("PARC"). As a result, the Company issued 388,574 of its common shares with a market value of \$0.9 million to the minority shareholders of PARC.

Total exploration and acquisition expenditures in Africa for 1998 amounted to \$3.1 million (compared to \$3.1 million in 1997). Expenditures in 1998 primarily reflect exploration activities in the Ivory Coast and Kenya and a \$1.8 million allocation of excess purchase price over the value of the assets acquired to these properties as a result of the Plan of Arrangement between the Company and PARC. During 1998, the Company recorded property abandonments of \$0.01 million for other projects as compared to \$8.5 million in 1997. Total budgeted expenditures on exploration and administration for 1999 are budgeted at \$0.1 million representing minimum holding costs for the Company's property interests in Cote d'Ivoire and Kenya.

In 1998, the Company's obligations under its customs duty obligations in Cote d'Ivoire were met and the performance bond of \$0.25 million was released.

On July 24, 1998, the Company announced an agreement had been reached with North Exploration (Overseas) Pty Limited ("North") for the exploration and development of the Company's Tanda property, located in central eastern Cote d'Ivoire. Under the terms of the agreement, North may earn a 60% participating interest in the Tanda property by spending a minimum of \$400,000 on exploration during the first 12 months of the joint venture and a minimum of \$3.0 million over a total of 36 months. North also has the option of earning an additional 10% interest, for a total of 70%, by fully funding feasibility work and providing or arranging, on a best efforts basis, project financing for any eventual development. North will act as manager and operator of the joint venture.

### **Year 2000 Compliance**

The Company recognizes the importance of ensuring that its business operations are not disrupted as a result of Year 2000 problems. The Company has prepared a three step plan to identify and resolve Year 2000 issues. First, the Company is compiling an inventory of its Information Technology ("IT") systems, and non-IT systems (which are those which typically include "embedded" technology such as microprocessors or chips) and performing a survey of the state of Year 2000 readiness of third party suppliers, vendors, joint venture partners and OGML. Second, the Company is prioritizing the IT and non-IT systems and vendor responses. Third, the Company has prepared a Year 2000 testing plan to assess the ability of IT and non-IT systems to handle the Year 2000. Those systems that are not Year 2000 compliant are being modified or replaced to ensure that they are Year 2000 compliant. These steps are in various stages of completion. The Company anticipates that all steps will be completed by June 30, 1999. The Company estimates the internal and external cost of Year 2000 compliance to be approximately \$0.1 million.

The Company believes that the greatest risk presented by the Year 2000 problem is from third parties, such as suppliers and financial institutions who may not have adequately addressed the problem. A failure of any such third party's computer or other applicable systems in sufficient magnitude could materially and adversely impact the Company. The Company is not presently able to quantify this risk but believes that it is minimal based upon the survey responses received to date from third party suppliers, vendors, joint venture partners and OGML.

The Company is undertaking a contingency planning effort to identify alternatives that could be used to mitigate the effects of Year 2000 related failures. The Company keeps printed back-up of all material transactions which could facilitate the continuation of business operations and remediation of data loss in the event of a system failure.

### **Effects of the European Monetary Union Currency**

Effective January 1, 1999, eleven of the fifteen member countries of the European Monetary Union ("EMU") adopted a single European currency, the "Euro", as their common legal currency. During the next three years,

business conducted within the EMU will be conducted in both the existing national currency and the Euro. As a result, companies operating in EMU member states will need to ensure that their financial systems are capable of processing transactions and properly handle these currencies, including the Euro. The operations of the Company's 71% owned subsidiary Guyanor Ressources S.A. are affected by this change. The Company has not had and does not expect a material impact on its results of operations from foreign currency gains or losses as a result of the transition to the Euro.

### **Other Matters**

The Company conducts all of its exploration and development of mineral properties in countries other than Canada and the United States directly and through joint ventures. To date, the vast majority of all funding has been through equity financing transactions completed in Canada and in Canadian currency (with the exception of the Guyanor offering of its Class B shares on the Nouveau Marche in France and the U.S. \$22.7 million raised by the Company in May 1997). The Company currently maintains all or the majority of its working capital in U.S. dollars or U.S. dollar denominated securities and converts funds to foreign currencies as payment obligations come due. Accordingly, the Company is subject to fluctuations in the rates of currency exchange between the U.S. dollar and these currencies, and such fluctuations may materially affect the Company's financial position and results of operations. The Company currently has future obligations which are payable in French francs and receivables collectible in French francs. The Company currently does not actively take steps to hedge against such risks. The Company also utilizes the services of outside advisors who provide the Company with market information and strategies to employ in protecting the cash and short term investments held by the Company.

The Company believes that its current activities are in material compliance with applicable laws and regulations designed to protect the environment, except to the extent that non-compliance would not have a material adverse effect on the Company's operations or financial condition. The Company periodically engages specialists to evaluate potential environmental issues for specific projects. The results of these evaluations are utilized in the property evaluation process, where applicable. The Company also evaluates the need for reclamation reserves in light of current laws and regulations and will make provisions for such reserves as they become necessary based on the Company's activities in Africa and South America.

### **Outlook**

The Company must rely primarily on the capital markets to fund its operations and exploration activities until it can achieve sustained positive cash flow from mining operations. The Company's ability to continue as a going concern is dependent upon its ability to raise additional capital to fund its exploration and development efforts. The current market for gold shares is weak and equity capital is difficult to obtain. The Company anticipates that additional capital will be required in 1999 in order to fund operations and exploration activities. The Company is exploring various transactions which would enable it to have sufficient capital to continue its operations. Various transactions being considered include mergers with other companies, acquisitions, and the issuance of new equity. Other sources for such capital may include, among other things, the establishment of joint ventures and sale of property interests.

If the current depressed market for gold prices and gold shares continues into 1999, it may be necessary for the Company to modify its 1999 budget to achieve further reductions in activity and general and administrative expenses. Capital is allocated to those projects which in the opinion of management, offer the greatest potential to generate additional reserves and mineralized material. A significant portion of the exploration and development expenditures for the Company and its subsidiaries represent discretionary spending and can be adjusted to reflect, among other things, results of exploration and development activities and the Company's capital resources. In 1999, the Company is required to make property rental payments and minimum exploration expenditures totaling \$0.6 million in order to maintain its current property interests per existing mineral agreements. The Company is negotiating the reduction or deferral of these payments where possible.

Whether and to what extent alternative financing options are completed by the Company or its subsidiaries will depend on a number of factors including, among others, the successful acquisition of additional properties or projects, the price of gold and management's assessment of the capital markets. The low gold price adversely affects our ability to obtain financing and therefore our abilities to develop our current portfolio of properties. We cannot assure you that additional funding will be available in 1999. This situation affects our flexibility to invest funds in exploration and development. We may, in the future, be unable to continue our exploration and development programs and fulfill our obligations under our agreements with our partners or under or permits and licenses. Although we have been successful in the past in obtaining financing through partnership arrangements and sale of equity securities, we cannot assure you that we will be able to obtain adequate financing on acceptable terms. If we are unable to obtain such additional financing, we may need to delay or indefinitely postpone further exploration and development of our properties. As a result we may lose our interest in some of our properties and may be obliged to sell some of our properties.

As at December 31, 1998, the Company held consolidated cash and short-term investments of \$7.4 million. Management anticipates consolidated total expenditures of \$7.9 million for 1999, with consolidated net expenditures after recoveries from joint venture partners and other working capital changes of approximately \$7.2 million. The Company has committed, subject to the availability of adequate funding, to continue funding on a reasonable best efforts basis the operations of Guyanor, in the amount of \$3.4 million which amount is included in the net spending of \$7.2 million. Without a financing or other capital raising transaction such as a sale of assets, and based on the current budget, management expects the Company will have a consolidated cash position of \$0.3 million as of December 31, 1999 absent any additional financings or transactions in 1999. This would materially and adversely affect our operations and our ability to continue as a going concern.

The Company's planned spending during 1999 is anticipated to be directed primarily toward pre-feasibility work at the Yaou and Dorlin projects, exploration work at Paul Isnard and St-Elie in French Guiana, and Abacaxis in Brazil, continued engineering work at Gross Rosebel in Suriname. No field work is planned for Gross Rosebel; however expenditures have been budgeted for additional work on the feasibility study related to engineering and metallurgical work for to the investigation of heap leaching alternatives and ongoing holding costs of the project.

The Company does not expect to receive cash flow from OGML in 1999 through redemptions of Class I preferred shares as any redemptions will be utilized to reduce the debt owed to OGML. The amount of redemptions, if any, is dependent on the net cash flow of OGML. The Company received \$1.7 million from redemptions of Class I preferred shares in 1998.

#### **Item 7A: Quantitative and Qualitative Disclosures About Market Risk**

The Company's exposure to market risk is limited to changes in interest rates on the Company's investment portfolio. The Company does not utilize derivative financial instruments. The Company invests its cash in debt instruments of the U.S. Government and its agencies, and in high-quality corporate issuers, and limits the amount of exposure to any one issuer. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors the Company's future investment income may fall short of expectations due to changes in interest rates or the Company may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

### To the Shareholders of Golden Star Resources Ltd.

The consolidated financial statements and all information in the Annual Report are the responsibility of the Board of Directors and management. The consolidated financial statements have been prepared by management based on information available to March 5, 1999, and are in accordance with accounting principles generally accepted in Canada.

A system of internal accounting and administrative controls is maintained by management in order to provide reasonable assurance that financial information is accurate and reliable, and that the Company's assets are safeguarded. Limitations exist in all cost effective systems of internal controls. The Company's systems have been designed to provide reasonable but not absolute assurance that financial records are adequate to allow for the completion of reliable financial information and the safeguarding of its assets.

The Company believes that the systems are adequate to achieve the stated objectives. Regular testing of these systems is employed to ensure continued effectiveness of the controls, and actions are taken when necessary to correct deficiencies when they are identified.

The Audit and Corporate Governance Committee of the Board of Directors is comprised of four outside directors, and meets regularly with management and the independent auditors to ensure that management is maintaining adequate internal controls and systems and to approve the annual and quarterly consolidated financial statements of the Company. The committee also reviews the audit plan of the independent auditors and discusses the results of their audit and their report prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Accountants, who were appointed by the shareholders. The auditors' report outlines the scope of their examination and their opinion on the consolidated financial statements.

*/s/ Pierre Gousseland*  
-----  
*Chairman of the Board*

*/s/ Gordon J. Bell*  
-----  
*Vice President and  
Chief Financial Officer*

## AUDITORS' REPORT

To the Shareholders of  
Golden Star Resources Ltd.:

We have audited the consolidated balance sheets of Golden Star Resources Ltd. as of December 31, 1998 and 1997 and the consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 1998 and 1997, and the consolidated results of its operations and cash flows for each of the three years in the period ended December 31, 1998, in accordance with accounting principles generally accepted in Canada.

*/s/ PricewaterhouseCoopers LLP  
Chartered Accountants  
Calgary, Canada*

*March 5, 1999*

### **Comments by the Auditors for U.S. Readers on Canada-U.S. Reporting Difference**

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern such as those described in Note 3 of the consolidated financial statements. Our report to the shareholders dated March 5, 1999, is expressed in accordance with Canadian reporting standards which do not permit a reference to such conditions and events in the auditors' report when these are adequately disclosed in the financial statements.

*/s/ PricewaterhouseCoopers LLP  
Chartered Accountants  
Calgary, Canada*

*March 5, 1999*

**GOLDEN STAR RESOURCES LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
(Stated in thousands of United States Dollars except share amounts)

ASSETS	As of December 31,	
	1998	1997
	----	----
<b>CURRENT ASSETS</b>		
Cash and short-term investments	\$ 7,350	\$ 17,399
Accounts receivable	511	2,238
Inventories	181	356
Other assets	174	159
	-----	-----
Total Current Assets	8,216	20,152
<b>RESTRICTED CASH</b>		
	-	250
<b>DEFERRED EXPLORATION</b>		
	58,203	65,160
<b>INVESTMENT IN OMAI GOLD MINES LIMITED</b>		
	1,337	2,126
<b>FIXED ASSETS</b>		
	685	1,280
<b>OTHER ASSETS</b>		
	156	154
	-----	-----
Total Assets	\$ 68,597	\$ 89,122
	=====	=====
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 921	\$ 2,825
Accrued wages and payroll taxes	779	900
	-----	-----
Total Current Liabilities	1,700	3,725
<b>LONG-TERM DEBT (Note 10)</b>		
	2,948	-
<b>OTHER LIABILITIES</b>		
	56	115
	-----	-----
Total Liabilities	4,704	3,840
	-----	-----
<b>MINORITY INTEREST</b>		
	5,422	5,725
	-----	-----
<b>COMMITMENTS AND CONTINGENCIES (Notes 10 and 18)</b>		
	-	-
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL</b>		
(Common shares, without par value, unlimited shares authorized. Shares issued and outstanding: 1998 - 30,292,249; and 1997 - 29,797,432)	159,163	158,001
Stock option loans	(4,012)	(4,012)
<b>DEFICIT</b>		
	(96,680)	(74,432)
	-----	-----
Total Shareholders' Equity	58,471	79,557
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 68,597	\$ 89,122
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

**Approved by the Board:**

By:       /s/ Pierre Gousseland        
Director

By:       /s/ Richard A. Stark        
Director

**GOLDEN STAR RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Stated in thousands of United States Dollars except per share amounts)

	For the Years Ended December 31,		
	1998	1997	1996
	----	----	----
REVENUE			
Precious metals sales	\$ -	\$ 443	\$ 1,723
Interest and other	635	1,255	1,078
	-----	-----	-----
	635	1,698	2,801
	-----	-----	-----
COSTS AND EXPENSES			
Cost of goods sold	-	987	4,097
Depreciation and depletion	230	772	1,246
Exploration expense	443	779	408
General and administrative	7,712	8,936	9,114
Write-offs & abandonment of mineral properties	16,600	22,437	10,365
Gain on disposal of assets	-	(302)	(33)
Interest expense	36	22	189
Foreign exchange loss (gain)	26	92	(2)
Loss on suspension of mining activities	-	-	2,085
Loss on impairment of inventories and fixed assets	-	1,522	-
Recovery of abandonment loss	-	-	(936)
	-----	-----	-----
	25,047	35,245	26,533
	-----	-----	-----
LOSS BEFORE THE UNDERNOTED	(24,412)	(33,547)	(23,732)
Gain on subsidiaries issuance of common shares	-	-	7,719
Omai preferred share redemption surplus	950	1,388	626
	-----	-----	-----
Loss before minority interest	(23,462)	(32,159)	(15,387)
Minority interest	1,214	5,575	7,607
	-----	-----	-----
NET LOSS	\$ (22,248)	\$ (26,584)	\$ (7,780)
	=====	=====	=====
BASIC AND DILUTED NET LOSS PER SHARE	\$ (0.74)	\$ (0.92)	\$ (0.31)
	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING (in millions of shares)	30.2	28.8	25.2
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

**GOLDEN STAR RESOURCES LTD.**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Stated in thousands of United States Dollars except share amounts)

	Common Stock Number of Shares -----	Share Capital -----	Stock Option Loans -----	Deficit -----
Balance at December 31, 1995	22,769,872	\$106,344	\$(1,170)	\$ (36,786)
Shares Issued	1,780,712	13,574	-	-
Shares Issued Under Options	1,059,469	6,744	-	-
Shares Issued Under Warrants	331,050	3,983	-	-
Issue Costs	-	(691)	-	-
Stock Option Loans	-	-	(2,902)	-
Stock Option Loan Repayments	-	-	60	-
Other	-	-	-	(3,282)
Net Loss	-	-	-	(7,780)
	-----	-----	-----	-----
Balance at December 31, 1996	25,941,103	\$129,954	\$(4,012)	\$ (47,848)
Shares Issued	3,085,296	22,840	-	-
Shares Issued Under Options	97,833	235	-	-
Shares Issued Under Warrants	673,200	5,429	-	-
Issue Costs	-	(457)	-	-
Net Loss	-	-	-	(26,584)
	-----	-----	-----	-----
Balance at December 31, 1997	29,797,432	\$158,001	\$(4,012)	\$ (74,432)
Shares Issued	421,357	987	-	-
Shares Issued Under Options	73,460	175	-	-
Net Loss	-	-	-	\$ (22,248)
	-----	-----	-----	-----
Balance at December 31, 1998	30,292,249 =====	\$159,163 =====	\$(4,012) =====	\$ ( 96,680) =====

The accompanying notes are an integral part of these consolidated financial statements.

**GOLDEN STAR RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Stated in thousands of United States Dollars)

	For the Years Ended December 31,		
	1998	1997	1996
Operating Activities:			
Net Loss	\$(22,248)	\$(26,584)	\$ (7,780)
Reconciliation of net loss to net cash used in operating activities:			
Depreciation and depletion	230	772	1,246
Premium on Omai preferred share redemption	(950)	(1,388)	(626)
Gain on disposal of assets	-	(302)	(33)
Write offs and abandonment of mineral properties	16,600	22,437	10,365
Recovery of abandonment loss	-	-	(936)
Gain on issuance of common shares by subsidiary	-	-	(7,719)
Write-down of equipment	-	1,522	450
Minority interest	(1,214)	(5,575)	(7,607)
Changes in non-cash operating working capital	(137)	516	1,990
	(7,719)	(8,602)	(10,650)
Net Cash Used in Operating Activities	(7,719)	(8,602)	(10,650)
Investing Activities:			
Expenditures on mineral properties, net of joint venture recoveries	(9,643)	(22,877)	(24,279)
Depreciation capitalized as deferred exploration	367	342	-
Proceeds from sale of property interest	-	-	640
Equipment purchases	(50)	(353)	(1,735)
Omai Preferred Share Redemption	1,738	2,541	1,145
Proceeds from sale of equipment	47	486	-
Other assets and investment	(7)	266	787
	(7,548)	(19,595)	(23,442)
Net Cash Used in Investing Activities	(7,548)	(19,595)	(23,442)
Financing Activities:			
Restricted cash	250	1,765	450
Change in other liabilities	(52)	22	(6)
Proceeds from issuance of subsidiary stock	-	-	19,987
Offering costs of subsidiary stock issues	-	(25)	(1,461)
Increase in minority interest	910	124	518
Issuance of long-term debt	3,169	-	-
Repayment of long-term debt	(220)	-	-
Issuance of share capital and warrants, net of issue costs	1,161	28,047	23,610
Stock option loan additions	-	-	(2,841)
	5,218	29,933	40,257
Net Cash Provided by Financing Activities	5,218	29,933	40,257
Increase (Decrease) in cash and short-term investments	(10,049)	1,736	6,165
Cash and short-term investments, beginning of period	17,399	15,663	9,498
	\$ 7,350	\$ 17,399	\$ 15,663
Cash and short-term investments, end of period	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All tabular amounts in thousands of United States Dollars)

### 1. Formation of the Company

In May of 1992, the shareholders of Golden Star Resources Ltd. ("Golden Star" or the "Company") and South American Goldfields ("South American"), respectively agreed to a business combination of the two companies. Neither company was under common control prior to the amalgamation. This combination was considered to be an amalgamation under the Canada Business Corporations Act and was effective May 15, 1992. The amalgamation was treated as a purchase by the Company for accounting purposes. Concurrent with the amalgamation, the common shares of the Company were consolidated on a one-for-two basis. The Company's fiscal year end is December 31, and commencing on May 15, 1992, the Company changed its reporting currency to the United States dollar. However, if the Company were to declare a dividend to its shareholders, it would be paid in Canadian dollars.

### 2. Description of Business

The Company is engaged in the business of exploration, acquisition and development of precious minerals deposits in both South America and Africa. The Company's common shares trade on the Toronto Stock Exchange under the symbol "GSC", and on the American Stock Exchange under the symbol "GSR".

Efforts in South America are focused on property interests in Guyana, Suriname, French Guiana (through its 71% owned subsidiary Guyanor Ressources S.A.), and Brazil (through its wholly owned Southern Star Resources Ltd.). The Company is also actively pursuing new projects in these countries in addition to other South American countries.

Efforts in Africa are focused on property interests in Kenya and Ivory Coast and are conducted through the Company's wholly owned subsidiary, Pan African Resources Corporation.

All of the Company's projects are conducted through agreements with third parties and national governments and/or pursuant to permits and licenses granted by appropriate authorities. When deemed appropriate, certain projects are pursued on a joint venture basis to share the associated risk and to assist in project funding.

### 3. Liquidity and Going Concern

The Company must rely primarily on the capital markets to fund its operations and exploration activities until it can achieve sustained positive cash flow from mining operations. The Company's ability to continue as a going concern is dependent upon its ability to raise additional capital to fund its exploration and development efforts. The current market for gold shares is weak and equity capital is difficult to obtain. The Company anticipates that additional capital will be required in 1999 in order to fund operations and exploration activities. The Company is exploring various transactions which would enable it to have sufficient capital to continue its operations. Various transactions being considered include mergers with other companies, acquisitions, and the issuance of new equity. Other sources for such capital may include, among other things, the establishment of joint ventures and sale of property interests.

If the current depressed market for gold prices and gold shares continues into 1999, it may be necessary for the Company to modify its 1999 budget to achieve further reductions in activity and general and administrative expenses. Capital is allocated to those projects which in the opinion of management, offer the greatest potential to generate additional reserves and mineralized material. A significant portion of the exploration and development expenditures for the Company and its subsidiaries represent discretionary spending and can be adjusted to reflect, among other things, results of exploration and development activities and the Company's capital resources. In 1999, the

Company is required to make property rental payments and minimum exploration expenditures totaling \$0.6 million in order to maintain its current property interests per existing mineral agreements. The Company is negotiating the reduction or deferral of these payments where possible.

Whether and to what extent alternative financing options are completed by the Company or its subsidiaries will depend on a number of factors including, among others, the successful acquisition of additional properties or projects, the price of gold and management's assessment of the capital markets. The low gold price adversely affects our ability to obtain financing and therefore our abilities to develop our current portfolio of properties. We cannot assure you that additional funding will be available in 1999. This situation affects our flexibility to invest funds in exploration and development. We may, in the future, be unable to continue our exploration and development programs and fulfill our obligations under our agreements with our partners or under or permits and licenses. Although we have been successful in the past in obtaining financing through partnership arrangements and sale of equity securities, we cannot assure you that we will be able to obtain adequate financing on acceptable terms. If we are unable to obtain such additional financing, we may need to delay or indefinitely postpone further exploration and development of our properties. As a result we may lose our interest in some of our properties and may be obliged to sell some of our properties.

As at December 31, 1998, the Company held consolidated cash and short-term investments of \$7.4 million. Management anticipates consolidated total expenditures of \$7.9 million for 1999, with consolidated net expenditures after recoveries from joint venture partners and other working capital changes of approximately \$7.2 million. The Company has committed, subject to the availability of adequate funding, to continue funding on a reasonable best efforts basis the operations of Guyanor, in the amount of \$3.4 million which amount is included in the net spending of \$7.2 million. Without a financing or other capital raising transaction such as a sale of assets, and based on the current budget, management expects the Company will have a consolidated cash of position of \$0.3 million as of December 31, 1999 absent any additional financings or transactions in 1999. This would materially and adversely affect our operations and our ability to continue as a going concern.

The Company's planned spending during 1999 is anticipated to be directed primarily toward pre-feasibility work at the Yaou and Dorlin projects, exploration work at Paul Isnard and St-Elie in French Guiana, and Abacaxis in Brazil, continued engineering work at Gross Rosebel in Suriname. No field work is planned for Gross Rosebel; however expenditures have been budgeted for additional work on the feasibility study related to engineering and metallurgical work for to the investigation of heap leaching alternatives and ongoing holding costs of the project.

The Company does not expect to receive cash flow from OGML in 1999 through redemptions of Class I preferred shares as any redemptions will be utilized to reduce the debt owed to OGML. The amount of redemptions, if any, is dependent on the net cash flow of OGML. The Company received \$1.7 million from redemptions of Class I preferred shares in 1998.

#### 4. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The following policies have been adopted by the Company.

##### **Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and its more than 50% owned subsidiaries. All material intercompany balances and transactions have been eliminated. Certain reclassifications have been made to the 1997 and 1996 notes to the consolidated financial statements to conform to the 1998 presentation. The consolidated group includes the following as of December 31, (all entities are 100% owned by the Company, unless otherwise noted):

1998:  
-----

Golden Star Holdings Ltd.  
Venezuela Investments Ltd.  
Golden Star Management Ltd.  
Pan African Resources Corporation

Southern Star Resources Ltd.  
Guyanor Ressources S.A. (71%)  
Societe de Travaux Publics  
et de Mines Auriferes en  
Guyane ("SOTRAPMAG") (99%)  
Societe des Mines de St-Elie ("SMSE") (100%)  
Caystar Holdings Ltd.

1997:  
-----

Golden Star Holdings Ltd.  
Venezuela Investments Ltd.  
Golden Star Management Ltd.  
Pan African Resources Corporation  
(63.9%)  
Southern Star Resources Ltd.  
Guyanor Ressources S.A. (69.3%)  
Societe de Travaux Publics  
et de Mines Auriferes en  
Guyane ("SOTRAPMAG") (99%)  
Societe des Mines de St-Elie ("SMSE") (50%)  
Caystar Holdings Ltd.

## **Cash and Short-term Investments**

Cash and short-term investments consist primarily of high credit quality United States and Canadian money market investments and fixed and variable income commercial paper, which are capable of reasonably prompt liquidation, and are stated at amortized cost, which approximates market value.

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of temporary cash investments. The Company restricts investment of temporary cash balances to financial institutions with high credit standing. The Company strives to minimize its credit risk through diversification of investment and financial institutions.

## **Inventories**

Gold inventory includes gold and gold concentrate and is recorded at its estimated market value. Materials and supplies are valued at the lower of average cost or replacement cost.

## **Restricted Cash**

In certain countries where the Company conducts business, the governments require performance bonds to be placed for certain amounts of the agreed-upon exploration expenditures. The cash collateralizing these bonds is shown as a non-current asset as the funds are not available for use in operations until the bond amounts are reduced or released by the governments.

## **Deferred Exploration**

Acquisition, administration, exploration and development costs of mineral properties are capitalized and will be depleted on a unit of production basis at such time as production commences or charged against income if the property is abandoned. Administration costs incurred after commencement of production will be charged against operations in the period incurred.

## **Fixed Assets**

Fixed assets are stated at cost and include buildings, machinery, equipment and vehicles. Depreciation is computed using the straight-line method at rates calculated to depreciate the cost of the assets less their anticipated residual values, if any, over their estimated useful lives. The net book value of fixed assets at property locations is charged

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

against income if the site is abandoned and it is determined that the assets cannot be economically transferred to another project or sold.

### **Foreign Currencies and Foreign Currency Translation**

Certain South American and African currencies are not readily negotiable outside their respective countries. United States of America funds transferred to these countries are used to purchase local currency to be used for labor, local supplies, and other items associated with the exploration and development of mineral properties. Accordingly, cash balances in these countries have been reclassified to deferred exploration.

As the functional currency of the Company is the U.S. Dollar, monetary assets and liabilities are translated at the rate of exchange prevailing at the end of the period. Non-monetary assets and liabilities are translated at the rates of exchange prevailing when the assets were acquired or the liabilities assumed. Revenue and expense items are translated at the average rate of exchange during the year. Translation gains or losses are included in the determination of net income for the period. Fully integrated foreign subsidiary accounts are translated using the same method.

Canadian currency in these financial statements is denoted as "Cdn\$", French currency is denoted as "FF", and Brazilian currency is denoted as "R".

### **Net Loss per Share**

Net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the year. Common share equivalents are not included as the effect would be anti-dilutive.

### **Investment in Omai Gold Mines Limited**

The investment in Omai Gold Mines Limited ("OGML") is accounted for using the equity method. Redemptions of preferred shares of OGML are allocated to the Investment in Omai account and to Premium on Omai Preferred Share Redemption on the basis of the Company's share of costs incurred as a percentage of the total value of the preferred shares.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### **Fair Value of Financial Instruments**

The Company's financial instruments are comprised of short-term investments, accounts receivable, restricted cash, the investment in OGML, accounts payable, accrued liabilities, accrued wages, payroll taxes and long-term debt. The fair value of cash and short-term investments, accounts receivable, accounts payable, accrued liabilities and accrued wages and payroll taxes equals their carrying value due to the short-term nature of these items. The fair value of restricted cash is equal to the carrying value as the cash is invested in short-term high quality instruments. The fair value of the Company's investment in OGML cannot be determined with sufficient reliability, and information concerning the terms and conditions of this investment is contained in Note 10. The fair value of the Company's long-term debt is equal to the value of the OGML Preferred I Shares contained in Note 10.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

**5. Inventories**

	December 31, 1998 -----	December 31, 1997 -----
Gold Inventory	\$ -	\$ 53
Materials and Supplies	181	303
	-----	-----
	\$ 181	\$ 356
	=====	=====

In December 1996, the Company initiated a program to discontinue alluvial mining operations conducted by SOTRAPMAG. An evaluation of the materials and supplies inventories held by SOTRAPMAG and used in the alluvial mining operations was conducted. As a result, inventories totaling \$0.3 million were deemed obsolete and were charged to loss in 1996. (See Note 8.) In September 1997, the remaining materials and supplies inventories of \$0.08 million held by SOTRAPMAG were charged to loss.

**6. Sale of Common Shares and Warrants by Subsidiaries****Issuances of Common Shares and Warrants by Guyanor Ressources S.A.**

On October 30, 1996, Guyanor obtained the approval of a final prospectus entitling Guyanor to list its Class B common shares for trading on the Nouveau Marche of the Bourse de Paris in France, and for the sale of 1.0 million of its Class B shares (the "Offering"). Trading of Guyanor's Class B shares on the Nouveau Marche began on October 30, 1996. The offering of Guyanor shares in Europe was completed on November 5, 1996, and as a result, Guyanor received net proceeds of approximately FF45.5 million (approximately \$8.9 million), and the Company's interest in Guyanor was reduced to approximately 68%. Because the price per Class B share issued exceeded the net book value per common share (including both Class A and Class B shares), the Company recorded a gain of approximately \$5.4 million in connection with this transaction.

On October 9, 1997, the Company and Guyanor announced that the Company had agreed to acquire an additional 1,000,000 Class B common shares of Guyanor at a price of FF11.57 or Cdn\$2.71. The total consideration of FF11,570,000 or Cdn\$2,710,000 for the shares will be satisfied by reducing the equivalent amount of funds advanced to Guyanor by the Company. The Class B common shares were issued on October 30, 1997, and the transaction resulted in an increase in the Company's interest in Guyanor from 68.5% to 69.3%.

On June 16, 1998, the Company and Guyanor announced that the Company had agreed to acquire an additional 2,380,000 Class B common shares of Guyanor at a price of FF9.53 or Cdn \$2.34. The total consideration of FF22,681,400 or Cdn\$5,579,624 for the shares will be satisfied by reducing the equivalent amount of funds advanced to Guyanor by the Company. The Class B Shares were issued on June 12, 1998, and the transaction resulted in an increase in the Company's interest in Guyanor from 69.3% to 71%.

**Issuances of Common Shares and Warrants by Pan African Resources Corporation**

On February 5, 1996, Pan African Resources Corporation, a Yukon company ("PARC Yukon"), and a subsidiary of the Company, completed a private placement of 13.2 million units at Cdn\$1.00 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant of PARC Yukon. Each whole warrant ("Series A Warrant") entitled the holder to purchase one common share of PARC Yukon at Cdn\$1.25 until November 1, 1996. On February 6, 1996, PARC Yukon was amalgamated under the Yukon Business Corporation Act with Humlin Red Lake Mines Limited, an Ontario corporation ("Humlin"). The amalgamated company is referred to as PARC. As a result of the amalgamation, each share issued under the PARC Yukon private placement was deemed exchanged for 1.001 share of PARC and each series A Warrant was deemed exchanged for one PARC Series A Warrant. As a result of the private placement and the amalgamation, the Company's interest was reduced to approximately 60% of the 45.3 million outstanding shares of PARC. PARC, as a result of the amalgamation, became a publicly traded company in Canada on February 8, 1996, with its common shares quoted on the Canadian Dealing Network.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(All tabular amounts in thousands of United States Dollars)

The private placement generated net proceeds of approximately \$9.0 million after payment of commissions and expenses. Because the price per common share issued exceeded the net book value per common share, a gain of approximately \$2.0 million was recorded by the Company in the first quarter of 1996. During the year ended December 31, 1996, PARC received \$1.0 million in proceeds from exercise of 1,063,500 of the Series A warrants. On October 31, 1996, PARC extended the exercise date of its \$1.25 Series A Warrants issued from November 1, 1996, to January 31, 1997. On January 31, 1997, the remaining 5,536,500 unexercised warrants expired.

Prior to the amalgamation with Humlin, indebtedness totaling \$12.3 million owed by Pan African Resources Corporation, a Barbados company ("PARC Barbados"), and a wholly-owned subsidiary of PARC Yukon, to the Company as of December 11, 1995, was converted by the Company, under the terms of two convertible debentures between PARC Barbados and the Company, into 24.9 million common shares of PARC Barbados. Upon completion of these loan conversions, 24.9 million PARC Barbados shares held by the Company were surrendered for cancellation in exchange for the issuance to the Company of 7.975 million warrants of PARC Barbados, each warrant entitling the Company to purchase one share of PARC Barbados at Cdn\$1.50 until July 15, 1997. After the PARC amalgamation, the PARC Barbados warrants were surrendered to PARC Barbados in exchange for the issuance by PARC to the Company of 7.975 million PARC Series B warrants. Each PARC Series B warrant entitles the Company to purchase one PARC common share at Cdn\$1.50 until July 15, 1997. In addition, the Company forgave indebtedness owed to it by PARC Barbados of \$0.3 million, incurred for funding of PARC Barbados' exploration activities from December 1995 through completion of the private placement.

In May 1997, PARC entered into a demand revolving line of credit with Golden Star, whereby Golden Star would loan PARC up to \$2.0 million. On June 27, 1997, the principal and interest on outstanding advances due from PARC totaling \$2,018,591 were converted into 7,333,328 PARC Common Shares at a conversion price of Cdn\$0.38 per share. As a result, Golden Star's interest in PARC increased to 63.9%.

### 7. Purchase of PARC Minority Interest

On April 21, 1998, the Company completed a Plan of Arrangement that resulted in the purchase of all of the outstanding shares held by minority shareholders of PARC. As a result, the Company issued 388,574 of its common shares with a market value of \$0.9 million to the minority shareholders of PARC. As a result of this transaction, the Company allocated the amount of purchase price in excess of the value of the assets acquired of approximately \$1.8 million to the Comoe and Ndori properties.

The following is the pro-forma income and loss for the Company for the twelve months ended December 31, 1998 and 1997, showing the results of operations had the transaction been completed on January 1, 1997:

	For the Year Ended December 31, 1998	For the Year Ended December 31, 1997
Revenue	\$ 635	\$ 1,698
Net Loss	\$ (21,039)	\$ (29,877)
Net Loss per Share	\$ (0.73)	\$ (1.04)

### 8. Suspension of Alluvial Mining Operations at SOTRAPMAG

The alluvial operations conducted through SOTRAPMAG experienced continuing operating losses since their acquisition in 1994 with operating losses of \$1.8 million in 1995 and \$2.4 million in 1996. As a result of the conclusions from a report by outside consultants in 1996, management decided to discontinue the alluvial operations conducted by SOTRAPMAG. Closure procedures, including land rehabilitation and Company-provided outplacement services were substantially completed by the end of 1997.

The Company, through its ownership interest in Guyanor, incurred charges to 1996 earnings totaling \$3.2 million, including \$0.8 million resulting from the write-down of certain fixed assets and inventories, \$1.1 million for the

**THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

write-down of certain capitalized exploration costs related to the alluvial mining operations, \$0.1 million for accrual of land rehabilitation and mine closure costs, and \$1.1 million for accrual of the severance and other social costs associated with the discontinuation of alluvial production. All accruals for future obligations are included in current liabilities. In 1997, the Company incurred, through its ownership interest in Guyanor, additional losses on impairment of assets of \$1.5 million offset by gains on sales of assets of \$0.3 million.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

## 9. Deferred Exploration

	December 31, 1998	December 31, 1997
<b>GUYANA</b>		
Eagle Mountain	\$ 1,364	\$ 1,136
Quartz Hill	1,347	1,347
Five Star Diamond	-	2,360
Five Stars Gold (Makapa)	819	3,684
BHP Gold Projects	-	333
Guyana Diamond Permits	-	109
Other	57	97
	-----	-----
	3,587	9,066
	-----	-----
<b>SURINAME</b>		
Benzdorp / Lawa	3,352	3,344
Gross Rosebel	14,543	13,892
Headley's Right of Exploration	313	311
Thunder Mountain	456	453
Saramacca	1,973	1,862
Sara Kreek	588	581
Tempati Reconnaissance	347	344
Tapanahony Reconnaissance	234	251
Kleine Saramacca	107	107
Lawa / Antino	2,109	2,096
Ulemari Reconnaissance	237	291
Other	283	(17)
	-----	-----
	24,542	23,515
	-----	-----
<b>FRENCH GUIANA (Guyanor Ressources S.A.)</b>		
Dorlin	2,363	1,330
St-Elie	2,377	1,973
Dieu-Merci	-	382
Yaou	7,486	7,130
Paul-Isnard / Eau Blanche	4,650	3,629
Paul Isnard Alluvials	1,987	1,987
Dachine	1,481	1,234
Other	-	81
	-----	-----
	20,344	17,746
	-----	-----
<b>AFRICA (Pan African Resources Corporation)</b>		
Ivory Coast / Comoe	4,304	2,092
Kenya / Ndori	2,565	1,677
Other	-	8
	-----	-----
	6,869	3,777
	-----	-----
<b>LATIN AMERICAN (Southern Star Resources Ltd.)</b>		
Brazil / Andorinhas	-	8,490
Brazil / Abacaxis	2,498	2,096
Brazil / Other	275	189
Bolivia / Other	-	173
	-----	-----
	2,773	10,948
	-----	-----
<b>OTHER</b>	<b>88</b>	<b>108</b>
	-----	-----
<b>TOTAL DEFERRED EXPLORATION COSTS</b>	<b>\$58,203</b>	<b>\$65,160</b>
	=====	=====

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

**Deferred Exploration by Country / Geographic Region**

	Total	Guyana	Suriname	French Guiana	Africa	Latin America	Other
December 31, 1995	\$ 51,447	\$ 9,972	\$11,456	\$ 16,107	\$13,107	\$ 792	\$ 13
Deferred Exploration Expenditures	33,481	3,482	11,232	8,878	5,121	4,768	-
Additions & Acquisitions	4,279	812	770	403	768	1,526	-
Write-offs & Property Abandonments	(10,365)	(9)	-	(1,126)	(9,230)	-	-
Joint Venture Recoveries	(13,468)	(130)	(6,405)	(6,933)	-	-	-
Proceeds From Sale of Property Interest	(640)	-	-	-	(640)	-	-
Reclass to Other Properties	(13)	-	-	-	-	-	(13)
December 31, 1996	64,721	14,127	17,053	\$ 17,329	9,126	7,086	-
Deferred Exploration Expenditures	35,688	3,748	11,483	11,549	3,064	5,749	95
Additions & Acquisitions	2,076	(112)	323	386	46	1,435	(2)
Write-offs & Property Abandonments	(22,437)	(8,578)	(668)	(1,425)	(8,459)	(3,322)	15
Joint Venture Recoveries	(14,888)	(119)	(4,676)	(10,093)	-	-	-
December 31, 1997	65,160	9,066	23,515	17,746	3,777	10,948	108
Deferred Exploration Expenditures	11,632	968	2,011	4,705	3,100	868	(20)
Additions & Acquisitions	250	-	-	-	-	250	-
Write-offs & Property Abandonments	(16,600)	(6,382)	-	(917)	(8)	(9,293)	-
Joint Venture Recoveries	(2,239)	(65)	(984)	(1,190)	-	-	-
December 31, 1998	\$ 58,203	\$ 3,587	\$24,542	\$ 20,344	\$ 6,869	\$ 2,773	\$ 88

The recoverability of amounts shown for deferred exploration is dependent upon sale or the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production or proceeds from the disposition thereof. The amounts deferred represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the properties.

In 1999, the Company is required to make property rental payments and minimum exploration expenditures totaling \$0.6 million in order to maintain its current property interests per existing mineral agreements. The Company is attempting to negotiate the reduction or deferral of these payments where possible.

The Company reported a net loss of \$22.2 million in 1998 as compared to a net loss of \$26.6 million in 1997. During 1998, the Company recorded property abandonment charges of \$16.6 million, including \$2.7 million and \$3.7 million, respectively, from the relinquishment of certain diamond and gold properties in Guyana, \$0.9 million for the Dieu Merci property in French Guiana, \$8.8 million for the Andorinhas project and \$0.3 million for other property areas in Brazil, and \$0.2 million related to various property interests in Bolivia. The abandonment of these projects was the result of several factors including exploration results and the assessment and prioritization of exploration projects by Management to ensure continued focus on the most promising projects in the Company's portfolio. Of the \$16.6 million of property abandonments described above, \$16.4 million were recorded in the

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

fourth quarter of 1998. The abandonments taken in the fourth quarter resulted from the company's review of annual exploration results, prioritization of projects, and results of negotiations with property owners.

On July 30, 1998, the Company announced that a preliminary agreement was reached on the material terms for the exploration and development of the Company's Eagle Mountain property. Under the terms of the agreement, Omai Gold Mines Limited ("OGML") in which Cambior Inc., the Company and the Government of Guyana hold 65%, 30% and 5% equity interests, respectively, could acquire a 100% interest in Eagle Mountain by (i) paying the Company \$80,000; and (ii) advancing the Company \$3.17 million, as a non-interest bearing loan to be repaid through the normal redemption of Class I Preference shares owed to the Company. After closing, OGML will fund 100% of exploration and feasibility costs associated with future programs at Eagle Mountain through completion of a final feasibility study. Additionally, if exploration is successful in defining a reserve resulting in a positive feasibility study and mine development, OGML will pay a 1.5% net smelter royalty to the Company upon achievement of commercial production. OGML will also pay to the Company an amount equal to \$1.0 million at the end of each year of commercial production for a period of five years. The closing of the acquisition was subject to the fulfillment of certain conditions, including the approval by the Government of Guyana of the transfer of the Eagle Mountain title to OGML. All conditions were fulfilled and the agreement was executed, effective December 23, 1998.

On July 24, 1998, the Company announced that an agreement with North Exploration (Overseas) Pty Limited ("North") for the exploration and development of the Company's Tanda property, located in central eastern Cote d'Ivoire. Under the terms of the agreement, North may earn a 60% participating interest in the Tanda property by spending a minimum of \$400,000 on exploration during the first 12 months of the joint venture and a minimum of \$3.0 million over a total of 36 months. North also has the option of earning an additional 10% interest, for a total of 70%, by fully funding feasibility work and providing or arranging, on a best efforts basis, project financing for any eventual development. North is acting as manager and operator of the joint venture.

On May 27, 1998, Golden Star and Guyanor announced the resolution of the budget deadlock with ASARCO Incorporated ("Asarco") regarding the spending levels and work programs at the Paul Isnard/Eau Blanche and St-Elie/Dieu-Merci gold projects. Under the termination and settlement agreement reached between Guyanor and Asarco and subject to certain conditions, Asarco was required to pay Guyanor amounts totaling approximately \$1.0 million. Upon settlement, Asarco relinquished all rights and obligations under the joint venture agreements. Accordingly, Guyanor now holds a 100% interest in the St-Elie project, and , approximately 89% of the Paul Isnard/Eau Blanche project, with LaSource holding the remaining 11% interest in Paul Isnard/Eau Blanche. During July 1998, Guyanor obtained the consent of LaSource and all amounts owing Guyanor by Asarco were fully paid.

In December 1996, PARC was granted an option by San Martin Mining and Investment Company Limited ("San Martin") relating to the Ndori property in Kenya. Under the terms of PARC's option to acquire 75% of the Ndori property, PARC has made payments to San Martin totaling \$0.6 million and must make minimum annual expenditures of \$0.6 million for each of two years. PARC was required to relinquish 50% of the original property area in 1998 and must relinquish a further 25% of the original area in 1999.

In January 1997, PARC announced the sale of its 80% interest in Lafayette Mining Gabon Ltd. ("LMGL"), the indirect holder of the Eteke Exploration Permit, to Lafayette Holdings Corp., the 20% minority interest owner of LMGL. Lafayette Holdings Corp. exercised its right of first refusal under the LMGL shareholder agreement and purchased PARC's 80% interest in LMGL for \$640,000. As a result, the Company wrote off deferred exploration expenses related to the Eteke Exploration Permit totaling \$5.3 million in the fourth quarter of 1996. The Company's share of this charge, after minority interest, was \$3.1 million.

The Company also incurred a charge to earnings in the fourth quarter of 1996 of \$4.0 million for write-down of capitalized costs for the Dul Mountain Project in Ethiopia. The majority of the property area did not meet the Company's standards and the Company has relinquished the Concession area, with minimal work on the area performed in 1997. The Company's share of this write-down was \$2.3 million after minority interest.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

In the fourth quarter of 1996, the Company decided to discontinue alluvial mining operations at SOTRAPMAG and, as a result, wrote-off certain capitalized exploration costs related to the alluvial operations in 1996 totaling \$1.1 million. (See Note 8.)

### **10. Investment in Omai Gold Mines Limited**

During 1991, the Company acquired a 35% common share equity interest for a nominal amount in OGML, a Guyanese company established to build and operate the Omai Mine in Guyana. This common share equity interest was reduced to 30% on April 1, 1993 pursuant to the exercise of an option granted to Cambior.

In addition, the Company received approximately \$11.0 million of Class I redeemable preferred shares of OGML in recognition of cumulative exploration costs amounting to \$5.0 million incurred to date by the Company on the Omai project with the remainder incurred by a former joint venture partner. In accordance with the Omai Mineral Agreement, these preferred shares are required to be redeemed quarterly with a minimum redemption amount equal to 10% of the operating cash flow, as defined, of OGML. The Company received preferred share redemptions of \$1.1 million, \$2.5 million and \$1.7 million in 1996, 1997 and 1998 respectively. These amounts are allocated to the Investment in OGML account and to Premium on Omai Preferred Share Redemption on the basis of the Company's share of costs incurred as a percentage of the total value of the Class I preferred shares.

On December 23, 1998, OGML advanced to the Company \$3.17 million, as an unsecured non-interest bearing loan to be repaid on a dollar-for-dollar basis as and when Class I preferred shares of OGML held by GSR are redeemed by OGML from time to time. The loan is non-interest bearing until September 30, 2010. After this date the loan bears interest at the US Dollar prime rate per annum, compounded quarterly until repayment in full with interest on overdue interest at the same rate. Of the \$1.7 million of Class I preferred shares redeemed in 1998 approximately \$0.2 million was used to reduce the outstanding loan balance. As of December 31, 1998, the Company owed OGML approximately \$2.9 million under this loan. The full balance was classified as long-term debt as of December 31, 1998.

Under the equity method of accounting, equity investors are required to record their share of the net loss of the investee to the extent that these losses do not exceed the investment in common share equity of the investee. Accordingly, the Company has not recorded its share of OGML's loss for the years ended December 31, 1996, 1997, and 1998. The Company will commence recognition of equity income when its share of accumulated income exceeds the amount of unrecognized equity losses.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

Details regarding the Company's investment in the common and preferred share equity and its share of equity losses not recorded are as follows:

	Common Shares	Preferred Shares
	-----	-----
December 31, 1995	\$ -	\$ 3,798
Less:		
Preferred Share Redemptions	-	(1,145)
Add:		
Premium on Preferred Share Redemptions	-	626
	-----	-----
December 31, 1996	\$ -	\$ 3,279
Less:		
Preferred Share Redemptions	-	(2,541)
Add:		
Premium on Preferred Share Redemptions	-	1,388
	-----	-----
December 31, 1997	\$ -	\$ 2,126
Less:		
Preferred Share Redemptions	-	(1,738)
Add:		
Premium on Preferred Share Redemptions	-	950
	-----	-----
December 31, 1998	\$ -	\$ 1,338
	=====	=====

The Company's Share of  
Accumulated Losses at:

December 31, 1996	\$ (2,713)
	=====
December 31, 1997	\$ (1,507)
	=====
December 31, 1998	\$ (628)
	=====

**Summarized Financial Information of OGML:**

	As of December 31,	
	1998	1997
	-----	-----
Current assets	\$ 24,550	\$ 25,175
Non-current assets	189,818	200,367
Current liabilities	12,815	11,671
Non-current liabilities	149,013	162,629
Redeemable preferred shares:		
Class I	3,107	5,305
Class II	-	-
Class III	50,243	50,243

The Class III Redeemable Preferred Shares carry a 15% cumulative dividend. As of December 31, 1998 and 1997, approximately \$57.4 million and \$42.6 million of dividends were accrued and unpaid on these shares.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

	For the Years Ended December 31,		
	1998	1997	1996
	----	----	----
Revenues	\$135,345	\$145,087	\$107,199
Expenses	131,849	139,309	104,463
	-----	-----	-----
Net income	\$ 3,496	\$ 5,778	\$ 2,736
	=====	=====	=====

At December 31, 1998 and 1997, the difference between the Company's carrying value of its investment in OGML and its equity share of net assets was as follows:

	As of December 31,	
	1998	1997
	----	----
30% of OGML net assets	\$15,761	\$15,373
Carrying value of investments	1,337	2,126
	-----	-----
Difference	\$14,424	\$13,247
	=====	=====

This difference between the Company's equity share of OGML net assets and its carrying value has not been recorded.

On August 19, 1995, a failure occurred in the main section of the tailings dam at the Omai Mine. The failure resulted in the discharge of cyanide-contaminated water into the Omai River, which in turn flowed into the Essequibo River. The discharge began on August 19, 1995, and continued until the leakage was fully controlled by Omai personnel on August 24, 1995. To minimize environmental damage, a portion of the discharged water was diverted into the Fennell Pit, the main source of gold at the Omai Mine. Production at the Omai Mine was suspended from August 19, 1995, until February 4, 1996, when operations resumed.

As a consequence of the Omai tailings dam failure, OGML has been named as a defendant in a variety of civil proceedings in Guyana. Such proceedings are currently being settled, without admission of liability, or being contested in good faith, as applicable. Amounts claimed under currently instituted proceedings against OGML do not exceed \$0.4 million in the aggregate and insurance coverage may be available to OGML in relation to a substantial portion of these claims.

OGML and its shareholders, including the Company, may become involved as defendants, plaintiffs or otherwise in a variety of additional legal proceedings in Guyana or elsewhere in relation to this incident. There can be no assurance that such additional litigation will not result in material additional costs arising from out-of-court settlements, damage awards or other sanctions against OGML or the Company. Moreover, there can be no assurance that all or any of such additional costs will be covered by appropriate insurance.

11. Fixed Assets

-----

	As of December 31,	
	1998	1997
	----	----
Machinery & equipment	\$ 2,851	\$ 3,239
Accumulated depreciation	(2,166)	(1,959)
	-----	-----
	\$ 685	\$ 1,280
	=====	=====

In December 1996, the Company initiated a program to discontinue alluvial mining operations conducted by SOTRAPMAG. An evaluation of the fixed assets held by SOTRAPMAG and used in the alluvial mining operations was conducted. As a result, fixed assets totaling \$0.4 million were deemed obsolete and were charged to loss for 1996. (See Note 8) During 1997, the Company sold certain machinery and equipment from the mine site and recognized gains of \$0.3 million. In September 1997, the decision was made that the remaining assets were not saleable and would be written off and charged to loss.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

### 12. Share Capital

#### a) Issuance of Share Capital

On August 8, 1997, the Company filed with the SEC a shelf registration statement on Form S-3 (the "Registration Statement"), with respect to the proposed issuance by the Company from time to time of up to \$47,687,500 of its common shares, preferred shares, convertible debt securities and/or warrants. The Registration Statement also includes \$52,312,500 in securities previously registered by the Company pursuant to a Registration Statement declared effective by the SEC on November 8, 1996.

On August 13, 1997, the Company filed with nine Canadian provincial securities commissions a short-form shelf prospectus, with respect to the proposed issuance by the Company from time to time of up to 12 million common shares and/or 12 million common share purchase warrants and a short-form shelf prospectus with respect to the proposed issuance from time to time of up to \$100 million of convertible debt securities. The Canadian prospectuses relate to the same securities being registered with the SEC.

No shares were issued under either Registration Statement or the Canadian prospectuses as of December 31, 1998.

On May 5, 1997, the Company sold through a prospectus offering 3,025,000 common shares at \$7.50 per share for total proceeds of \$22.7 million. These shares were issued under the Company's shelf prospectus in the United States and Canada dated September 25, 1996 and October 15, 1996, respectively.

On April 21, 1998, the Company completed a Plan of Arrangement that resulted in the purchase of all of the outstanding shares held by minority shareholders of Pan African Resources Corporation ("PARC"). As a result, the Company issued 388,574 of its common shares with a market value of \$0.9 million to the minority shareholders of PARC.

#### b) Stock Option Plan

##### **Stock Options**

As a result of changes in U.S. securities laws, the Company adopted a new stock option plan, the 1997 Stock Option Plan (the "1997 Plan"). Under this plan, the Employees' and Directors' Plans were combined into one plan. The Company obtained shareholder approval for this plan on June 10, 1997. The Employees' and Directors' Plans were terminated as of June 10, 1997, and the outstanding options were assumed under the 1997 Plan. Options granted under the 1997 Plan are non-assignable and are exercisable for a period of ten years or such other date as stipulated in a stock option agreement between the Company and an optionee. The maximum number of shares issuable under the plan is 5,600,000. The number of common shares vested and exercisable under the plan at December 31, 1998, was 3,317,770. The number of common shares vested and exercisable under the plan as of December 31, 1997, was 3,352,681.

##### **Stock Option Loans**

As of December 31, 1998, and 1997, employees had exercised their rights under employee stock option loan agreements and purchased 1,029,012 and 1,029,012 common shares, respectively, against which there were outstanding loans of Cdn\$5.3 million and Cdn\$5.3 million, respectively. Of the 1998 and 1997 outstanding loan balances, approximately Cdn\$5.3 million and Cdn\$5.3 million, respectively, relate to loans to two employees, one a former officer and currently a director, and the other a former officer of the Company. These loans are non-interest bearing and must be repaid within five years from the date of exercise unless the loan term is extended by vote of the Board of Directors. The shares are held by a trustee and, in the event of non-payment, the sole recourse for repayment and recovery of the loans shall be as against pledged shares. In the event that the loans are not repaid and the shares are sold at a loss, only the net proceeds will be credited to share capital. The average exercise price

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

of the underlying shares regarding outstanding loans as at December 31, 1998, and 1997 was Cdn\$5.26 for both periods. The loans outstanding at December 31, 1998, are due as follows:

1999	\$4,012
2000	-
2001	-
2002	-
	-----
	\$4,012
	=====

As a result of the resignation of David Fennell as President and Chief Executive Officer from the Company on October 27, 1998, outstanding stock option loans in the amount of Cdn\$4.4 million were due and payable 30 days after his departure from the Company. The Company has been informed that there will be no repayment of these loans. Due to the non-recourse nature of these loans the Company is in the process of canceling the Cdn\$4.4 million of share loans and the corresponding 667,792 outstanding common shares. This cancellation process is expected to be completed in the second quarter of 1999.

**Schedule of Stock Option Activity**

	Shares Under Option -----	Price (Cdn\$) -----
Shares Under Option at December 31, 1995	2,991,550	\$2.76 to \$17.00
Activity:		
Granted	992,250	\$9.50 to \$14.40
Exercised	(1,059,469)	\$2.76 to \$16.20
Canceled	(40,100)	\$7.63 to \$16.20
	-----	
Shares Under Option at December 31, 1996	2,884,231	\$2.76 to \$24.40
Activity:		
Granted	1,221,450	\$3.40 to \$18.50
Exercised	(97,833)	\$2.76 to \$9.25
Canceled	(50,500)	\$7.63 to \$16.20
	-----	
Shares Under Option at December 31, 1997	3,957,348	\$3.40 to \$24.40
Activity:		
Granted	209,500	\$1.55 to \$6.65
Exercised	(73,460)	\$3.40
Canceled	(596,658)	\$3.40 to \$23.00
	-----	
Shares Under Option at December 31, 1998	3,496,730	\$1.55 to \$24.40
	=====	=====

## c) Stock Bonus Plan

In December 1992, the Company established an Employees' Stock Bonus Plan (the "Bonus Plan") for any full-time or part-time employee (whether or not a Director) of the Company or any of its subsidiaries who has rendered meritorious services which contributed to the success of the Company or any of its subsidiaries. The Bonus Plan provides that a specifically designated committee of the Board of Directors of the Company may grant bonus common shares on terms that it may determine, within the limitations of the Bonus Plan and subject to the rules of applicable regulatory authorities. The maximum number of common shares issuable under the Bonus Plan is 320,000.

On January 1, 1996, a total of 30,712 common shares were declared for certain employees under the Bonus Plan as compensation for 1995. A total of 60,296 common shares were issued in December 1997 pursuant to the December 9, 1997 bonuses. During 1998, a total of 32,783 common shares were issued to certain employees

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

pursuant to the Bonus Plan. The Company recognized compensation expenses related to bonuses under the Bonus Plan during both 1998 and 1997 of \$0.1 million. In connection with the bonus common shares allocated in 1998 and 1997, with one exception paid by the Company as authorized by the Compensation committee, each of the employees is responsible to pay any applicable income taxes which may be assessed as a result of the issuance of such bonus common shares.

### d) Warrants

On February 2, 1994, the Company closed a private placement of 2.5 million Special Warrants at a price of Cdn\$21.00 per Special Warrant for gross proceeds of Cdn\$52.5 million. Each Special Warrant entitled the holder thereof to receive one common share and one half of one common share purchase warrant at no additional cost. One whole common share purchase warrant was exercisable at a price of Cdn\$25.00 up to July 31, 1995. As a result of the Plan of Arrangement between the Company and its shareholders effected on March 14, 1995, warrant holders were entitled to receive, upon the exercise of two warrants and a payment of Cdn\$25.00, one common share of the Company and one-fifth of one Class B common share of Guyanor. On July 24, 1995 the Company announced that it had obtained all necessary approvals for a one-year extension of the expiration date of the Company's common share purchase warrants to July 31, 1996. During 1996, 129,250 of the Company's common share purchase warrants were exercised for proceeds of \$2.4 million. On July 31, 1996, the remaining 1,120,750 of these warrants expired unexercised.

On March 6, 1996, the Company completed a public offering in Canada of 1.75 million units at a price of Cdn\$10.50 per unit for total proceeds of \$12.9 million (Cdn\$18.375 million). Each unit consisted of one common share and one-half of a common share purchase warrant. Each whole warrant was exercisable into one common share of the company for a period of 12 months at a price of Cdn\$11.00. During 1996, 201,800 of the Company's Cdn\$11.00 warrants were exercised for proceeds of \$1.6 million. All of the remaining Cdn\$11.00 warrants were exercised in 1997 for proceeds of \$5.4 million.

### (e) Shareholder Rights Plan

In April 1996, the Company's Board of Directors adopted a Shareholder Rights Plan (the "Rights Plan"). The Rights Plan is designed to expire in June 1999. Under the Rights Plan, the Company issued one right (a "Right") for each common share of the Company outstanding on April 24, 1996. The Company will also issue one Right for each common share issued in the future. The Rights were issued pursuant to the Rights Agreement dated April 24, 1996, between the Company and The R-M Trust Company (now CIBC Mellon Trust Company) as rights agent. Each Right will entitle the holder to purchase from the Company one common share at \$200, subject to adjustments and the provisions of the Rights Plan. The Board may, at any time, redeem the rights until their expiration and may amend the rights under certain limited circumstances until they become exercisable.

### f) Other

Under the terms of an agreement dated September 10, 1987, South American acquired all of the outstanding interest in the GuyGold Syndicate ("Syndicate") for consideration of Cdn\$1,750,000. The assets of the Syndicate consisted of interest in mineral properties, each of which consisted of a 20 square mile block, pursuant to an agreement negotiated with the Government of Guyana. As at December 31, 1996, all of the mineral properties were abandoned except for the Quartz Hill property. A further 76,923 common shares will be issued if and when Quartz Hill is brought into production. All members of the Syndicate were directors or former directors of the Company and three were former officers. The Company's potential obligations under this agreement may be affected by the terms of the new agreement with OGML. (See Note 17)

## **13. Income Taxes**

Losses carried forward for income tax purposes in Canada, approximating Cdn\$35.0 million are available for the reduction of future years' taxable incomes. These losses expire as follows (in thousands):

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

**CDN\$**

1999	\$ 2,266
2000	1,664
2001	1,702
2002	5,524
2003	6,525
2004	7,531
2005	9,752
Total	\$34,964

No recognition has been given in these financial statements to any potential tax savings that may arise from the application of these losses. The Company's effective tax rate is nil.

**14. Operations by Geographic Area**

Information on the Company's continuing operations by geographic area for the years ended December 31, 1998, 1997 and 1996 is shown below. During the periods presented, the Company had one customer who accounted for 100% of sales. However, because the Company is principally selling a commodity, concentration of credit risk is not considered significant.

	Operating Revenues	Net (Loss)	Identifiable Assets
	-----	-----	-----
1998			
South America	\$ 8	\$ (18,448)	\$52,711
Africa	-	(6)	6,865
Corporate	627	(3,794)	9,021
Total	\$ 635	\$ (22,248)	\$68,597
=====			
1997			
South America	\$ 539	\$ (16,833)	\$64,702
Africa	71	(6,237)	3,936
Corporate	1,088	(3,514)	20,484
Total	\$ 1,698	\$ (26,584)	\$89,122
=====			
1996			
South America	\$ 1,811	\$ (5,760)	\$65,283
Africa	224	(5,706)	12,893
Corporate	766	3,686	18,107
Total	\$ 2,801	\$ (7,780)	\$96,283
=====			

**15. Generally Accepted Accounting Principles in Canada and the United States**

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada which differ in certain respects from those principles that the Company would have followed had its financial statements been prepared in accordance with accounting principles generally accepted in the United States. Differences which materially affect these consolidated financial statements are:

(a) For United States GAAP ("U.S. GAAP") exploration and general and administrative costs related to projects are charged to expense as incurred. As such, the majority of costs charged to Exploration Expense and Abandonment of Mineral Properties under Canadian GAAP would have been charged to earnings in prior periods under U.S. GAAP. Property acquisition costs are capitalized for both Canadian and U.S. GAAP.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

(b) For periods prior to May 15, 1992, (the "amalgamation"), the Company's reporting currency was the Canadian Dollar. Subsequent to the Company's amalgamation and moving of corporate headquarters to the United States, the reporting currency was changed to the U.S. Dollar. As such, for the financial statements for the period prior to May 15, 1992, the Company's financial statements were translated into U.S. Dollars using a translation of convenience. U.S. GAAP requires translation in accordance with the current rate method.

(c) Under U.S. GAAP, the investment in OGML would have been written off in prior years and, therefore, the entire Omai Preferred Share Redemption would have been included in income. Under Canadian GAAP a portion of the Omai Preferred Share Redemption is included in income with the remainder reducing the carrying value of the Company's preferred stock investment.

(d) U.S. GAAP requires that compensation expense be recorded for the excess of the quoted market price over the option price granted to employees and directors under stock option plans, since the Company has adopted the disclosure provisions of APB 25 "Accounting for Stock Issued to Employees". Under Canadian GAAP, no compensation expense is recorded for such awards.

(e) Canadian GAAP allows classification of investments which are capable of reasonably prompt liquidation as current assets. As such, all of the Company's investments are included under the caption "short-term investments" on the balance sheet under current assets. U.S. GAAP requires classification as current or long-term assets based upon the anticipated maturity date of such instruments. Under U.S. GAAP, cash (and cash equivalents) includes bank deposits, money market instruments, and commercial paper with original maturities of three months or less. Canadian GAAP permits the inclusion of temporary investments with maturities greater than 90 days in cash.

(f) The gains on subsidiaries issuance of common shares recorded under Canadian GAAP in respect of the Guyanor public offering and the PARC private placement as discussed in Note 6 are not appropriate under U.S. GAAP.

(g) The Company eliminated its accumulated deficit through the amalgamation (defined as a reorganization under U.S. GAAP) effective May 15, 1992. Under U.S. GAAP the cumulative deficit was greater than the deficit under Canadian GAAP due to the write-off of certain deferred exploration costs described in (a) above.

(h) Under U.S. GAAP, available-for-sale securities are recorded at fair value and unrealized gains and losses are recorded as a separate component of shareholders' equity. Fair value is determined by quoted market prices. The Company has no available-for-sale securities as of December 31, 1998.

(i) Under U.S. GAAP, accrued severance and social charges of \$1.1 million resulting from suspension of alluvial mining operations at SOTRAPMAG would not have been recorded as the requirements for accrual under U.S. GAAP were not satisfied as of December 31, 1996. These charges were recorded in 1997 as all requirements had been met.

(j) Under U.S. GAAP, items such as foreign exchange gain and losses are required to be shown separately in derivation of Comprehensive Income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

Had the Company followed GAAP in the United States, certain items on the statements of operations and balance sheets would have been reported as follows:

	For the Years Ended December 31,		
	1998	1997	1996
Net loss under Canadian GAAP	\$ (22,248)	\$ (26,584)	\$ (7,780)
Net effect of the deferred exploration expenditures on loss for the period (a)	4,901	1,189	(10,231)
Effect of recording compensation expense under stock option plans (d)	-	(83)	(85)
Foreign exchange loss	26	92	(2)
Reversal of the gain on subsidiary's issuance of common stock (f)	-	-	(7,719)
Reversal of the loss for severance accruals (i)	-	(1,115)	1,115
Effect of Omai Preferred Share Redemption (c)	788	1,152	520
Loss under U.S. GAAP before minority interest	(16,533)	(25,349)	(24,182)
Minority interest as adjusted	1,138	(1,489)	(1,097)
Net Loss under U.S. GAAP	\$ (15,395)	\$ (26,838)	\$ (25,279)
Other comprehensive income foreign exchange loss (j)	(26)	(92)	2
Comprehensive income (j)	(15,421)	(26,930)	(25,277)
Basic and diluted net loss per share under U.S. GAAP	\$(0.51)	\$(0.94)	\$(1.00)

(For items (a) to (j), see page 79.)

Under U.S. GAAP the Omai preferred share redemption would be included with costs and expenses before the caption "Loss Before the Undernoted" on the consolidated statements of loss and deficit. Weighted average common shares outstanding are substantially the same under U.S. GAAP as under Canadian GAAP for the periods presented.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

The effect of the differences in accounting under Canadian GAAP and U.S. GAAP on the balance sheets and statements of cash flows are as follows:

**Balance Sheet**

	December 31, 1998		December 31, 1997	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Cash (e)	\$ 7,350	\$ 3,145	\$ 12,458	\$ 12,458
Short term investments (e)	-	1,590	4,941	1,999
Marketable securities (h)	-	-	-	-
Other current assets	866	866	2,753	2,753
Restricted cash	-	-	250	250
Deferred exploration (a)	58,203	18,183	65,160	20,239
Investment in OGML (c)	1,337	-	2,126	-
Long-term investments (e)	-	2,615	-	2,942
Other assets	841	841	1,434	1,435
	-----	-----	-----	-----
Total Assets	\$ 68,597	\$ 27,240	\$ 89,122	\$ 42,076
	=====	=====	=====	=====
Liabilities (i)	\$ 4,704	\$ 4,704	\$ 3,840	\$ 3,840
Minority interest (a)	5,422	5,637	5,725	7,076
Share capital, net of stock option loans (g)	155,151	152,360	153,989	151,200
Cumulative translation adjustments (b)	-	1,595	-	1,595
Accumulated comprehensive income	-	(593)	-	(567)
Deficit (a) (c) (d) (f) (i)	(96,680)	(136,463)	(74,432)	(121,068)
	-----	-----	-----	-----
Total Liabilities and Shareholders' Equity	\$ 68,597	\$ 27,240	\$ 89,122	\$ 42,076
	=====	=====	=====	=====

(For items (a) to (i), see page 79.)

Under U.S. GAAP, receivables would be separately disclosed as follows:

	1998	1997
Receivables from employees	\$ 55	\$ 396
Receivables from joint venture partners	96	805
Interest receivable	72	85
Other	288	952
Allowance for doubtful accounts	-	-
	-----	-----
Total Receivables	\$ 511	\$ 2,238
	=====	=====

Of the December 31, 1998 and 1997 accounts receivable balance, \$0.05 million and \$0.1 million respectively, relates to loans to two officers of the Company.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

**Statement of Changes in Shareholders' Equity Under U.S. GAAP**

	Common Stock Number of Shares	Share Capital	Stock Option Loans	(b) Cumulative Translation Adjustment	(i) Accumulated Unrealized Gains on Investments	Deficit	Accumulated Comprehensive Income
	-----	-----	-----	-----	-----	-----	-----
Balance at December 31, 1995	22,769,872	\$ 95,666	\$(1,170)	\$ 1,595	\$ 127	\$(65,668)	\$ (477)
Shares Issued	1,780,712	13,574	-	-	-	-	-
Shares Issued Under Options	1,059,469	6,744	-	-	-	-	-
Shares Issued Under Warrants	331,050	3,983	-	-	-	-	-
Issue Costs	-	(691)	-	-	-	-	-
Stock Option Loans	-	-	(2,902)	-	-	-	-
Stock Option Loan Repayments	-	-	60	-	-	-	-
Reclass of Gain of Subsidiary Stock (f)	-	7,719	-	-	-	-	-
Stock Based Compensation Expense (d)	-	85	-	-	-	-	-
Accumulated Unrealized Gains on Investments (i)	-	-	-	-	(127)	-	-
Other	-	-	-	-	-	(3,282)	-
Comprehensive Income (j)	-	-	-	-	-	-	2
Net Loss (a) (c) (d) (f) (I)	-	-	-	-	-	(25,279)	-
Balance at December 31, 1996	25,941,103	127,080	(4,012)	1,595	-	(94,229)	(475)
Shares Issued	3,085,296	22,840	-	-	-	-	-
Shares Issued Under Options	97,833	235	-	-	-	-	-
Shares Issued Under Warrants	673,200	5,429	-	-	-	-	-
Issue Costs	-	(457)	-	-	-	-	-
Stock Based Compensation Expense (d)	-	83	-	-	-	-	-
Comprehensive Income (j)	-	-	-	-	-	-	(92)
Net Loss (a) (c) (d) (f) (i)	-	-	-	-	-	(26,838)	-
Balance at December 31, 1997	29,797,432	155,210	(4,012)	1,595	-	(121,068)	(567)
Shares Issued	421,357	987	-	-	-	-	-
Shares Issued under Options	73,460	175	-	-	-	-	-
Comprehensive Income (j)	-	-	-	-	-	-	(26)
Net Loss (a)(c)(d)(f)( i )	-	-	-	-	-	(15,395)	-
Balance at December 31, 1998	30,292,249	\$156,372	\$(4,012)	\$(1,595)	\$ -	\$(136,463)	\$(593)

**Statements of Cash Flows Under U.S. GAAP**

Net Cash Provided By (Used In):	Operating Activities		Investing Activities		Financing Activities	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
For the Years Ended,						
December 31, 1998	\$ (7,719)	\$ (14,792)	\$ (7,548)	\$ 2,743	\$ 5,218	\$ 2,327
December 31, 1997	\$ (8,602)	\$ (27,045)	\$(19,595)	\$(2,670)	\$29,933	\$30,009
December 31, 1996	\$(10,650)	\$(30,024)	\$(23,442)	\$(3,963)	\$40,257	\$40,331

The statements of cash flows reflect the impact of the previously discussed adjustments (a) (c) (d) (f) and the following non-cash items:

U.S. GAAP does not permit the presentation of non-cash items in investing or financing activities in the consolidated statements of cash flows, and consequently, deferred exploration costs and share capital and warrants would be reduced by \$0.5 million, \$0.0 million and \$0.9 million for the years ended December 31, 1996, 1997 and 1998, respectively.

**U.S. GAAP Tax Considerations**

U.S. GAAP changes the Company's method of accounting for income taxes from the deferred method, as recorded under Canadian GAAP, to an asset and liability approach. Under the asset and liability method,

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

deferred tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Use of the asset and liability method has no effect on the U.S. GAAP financial statements as the Company has concluded that a full valuation allowance must be applied to the deferred tax asset resulting from the Company's net operating loss carryforwards. (See Note 13) For the years ended December 31, 1998 and 1997, the Company has recorded no current tax expense under Canadian or U.S. GAAP due to the cumulative net losses incurred by the Company. Under U.S. GAAP, the Company would not record any deferred tax expense based on the same rationale.

The Company operates in Africa, French Guiana, Guyana, Suriname and Brazil. In Africa and French Guiana, the Company is currently negotiating its tax position with the related governments and as such, the differences between the book bases and tax bases of the Company's assets and liabilities cannot be determined.

Certain of the Company's operations are subject to Canadian taxes including the office headquarters, Guyana and Suriname which are all divisions of the Company.

Summarized below are the components of deferred taxes:

	As of December 31,	
	1998	1997
Temporary differences relating to net assets:		
Other current assets	\$ 62	\$ 81
Property & equipment	405	396
Deferred exploration	21,076	18,587
Investment in OGML	1,120	1,781
Offering costs	1,103	1,103
Tax loss and credit carryforwards	10,201	8,806
	-----	-----
Gross deferred tax asset	33,967	30,754
	-----	-----
Valuation allowance	(33,967)	(30,754)
	-----	-----
Net deferred tax assets	\$ -	\$ -
	=====	=====

The valuation allowance increased by \$3.2 million in 1998 due to the taxable losses and increase in temporary differences. Any income tax benefits resulting from utilization of net operating loss carry forwards existing at May 15, 1992, the date of the quasi-reorganization under U.S. GAAP, would be excluded from results of operations and credited directly to share capital, resulting in lower earnings than would be reported absent the quasi-reorganization (see (g) above).

**Stock Based Compensation Plans**

At December 31, 1998, the Company has two stock-based compensations plans, which are described below. The Company applies APB Opinion No. 25 and related interpretations in accounting for its plans in its U.S. GAAP presentations. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under the plans consistent with the method described in Statement of Financial Accounting Standards No. 123, the Company's consolidated net loss and loss per share under U.S. GAAP would have been increased to the pro forma amounts indicated below:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

		1998	1997
		-----	-----
Net loss under U.S. GAAP	As reported	\$ (15,272)	\$ (26,930)
	Pro forma	\$ (19,831)	\$ (32,660)
Net Loss per share under U.S. GAAP	As reported	\$ (0.51)	\$ (0.94)
	Pro forma	\$ (0.66)	\$ (1.13)

Under the 1997 Stock Option Plan ("GSR Plan"), the Company may grant options to employees, consultants and directors of the Company or its subsidiaries for up to 5,600,000 shares of common stock. Under the GSR Plan, the options may take the form of non-qualified stock options, the exercise price of each option shall not be less than the market price of the Company's stock on the date of grant, and an option's maximum term is ten years or such other shorter term as stipulated in a stock option agreement between the Company and the optionee. Options under the GSR Plan are granted from time to time at the discretion of the Board of Directors. Options granted under the GSR Plan vest over periods ranging from immediately to four years from the date of grant and vesting periods are determined at the discretion of the Board of Directors.

Under the Guyanor Ressources S.A. Stock Option Plan (the "Guyanor Plan"), Guyanor may grant options to its employees for up to 4,367,889 shares of Class B common shares. The options may take the form of non-qualified stock options, the exercise price of each option shall not be less than (i) the equivalent of the Canadian Dollar amount equal to the closing price of the shares on the Toronto Stock Exchange on the trading day immediately prior to the day the option is granted and (ii) 80% of the average closing price on the Nouveau Marche of the Bourse de Paris during the 20 consecutive trading days immediately preceding the date the option is granted. An option's term is ten years. Options under the Guyanor plan are granted from time to time at the discretion of Guyanor's Board of Directors and vest over periods ranging from immediately to three years.

The Pan African Resources Corporation Stock Option Plan (the "PARC Plan") was canceled upon the completion of the Plan of Arrangement discussed in Note 7.

The fair value of each option grant is estimated on the date of grant for all plans using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1998, 1997 and 1996:

	GSR Plan	1998 Guyanor Plan	PARC Plan
	-----	-----	-----
Expected volatility	105.9%	N/A	N/A
Risk-free interest rate	4.37% to 5.70%	N/A	N/A
Expected lives	5 years	N/A	N/A
Dividend yield	0%	N/A	N/A
		1997	
	GSR Plan	Guyanor Plan	PARC Plan
	-----	-----	-----
Expected volatility	79%	56%	81%
Risk-free interest rate	5.74% - 6.55%	5.92%	6.16% - 6.53%
Expected lives	5 years	5 years	5 years
Dividend yield	0%	0%	0%
		1996	
	GSR Plan	Guyanor Plan	PARC Plan
	-----	-----	-----
Expected volatility	55%	73%	93%
Risk-free interest rate	5.30% to 6.77%	5.50% to 6.39%	5.25% to 6.28%
Expected lives	5 years	5 years	5 years
Dividend yield	0%	0%	0%

The following tables summarize information about stock options under the GSR Plan:

GSR Plan	1998		1997		1996	
	Shares (000)	Weighted-Average Exercise Price (Cdn\$)	Shares (000)	Weighted-Average Exercise Price (Cdn\$)	Shares (000)	Weighted-Average Exercise Price (Cdn\$)
Outstanding at beginning of year	3,957	\$10.79	2,884	\$13.07	2,991	\$ 9.40
Granted	210	\$ 2.47	1,221	\$ 5.08	992	\$19.34
Exercised	(73)	\$ 3.40	(98)	\$ 3.30	(1,059)	\$ 6.37
Forfeited	(597)	\$15.27	(50)	\$17.31	(40)	\$12.23
Outstanding at end of year	3,497	\$10.40	3,957	\$10.79	2,884	\$13.07
Options exercisable at year-end	3,318		3,353		2,221	
Weighted-average fair value of options granted during the year		\$ 1.90		\$ 5.08		\$19.34

Options Outstanding				Options Exercisable	
GSR Plan Range of Exercise Prices (Cdn\$)	Number Outstanding at Dec. 31, 1998 (000)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price (Cdn\$)	Number Exercisable at Dec. 31, 1998 (000)	Weighted-Average Exercise Price (Cdn\$)
\$1.55 to \$2.76	217	7.83	\$ 2.00	217	\$ 7.83
\$3.40 to \$7.63	1,553	7.75	\$ 5.26	1,374	\$ 5.50
\$8.05 to \$12.05	255	7.28	\$ 9.39	255	\$ 9.39
\$12.15 to \$17.90	683	5.43	\$14.36	683	\$14.36
\$18.45 to \$24.40	789	6.86	\$19.72	789	\$19.72
	3,497			3,318	

The following tables summarize information about stock options for the Guyanor plan:

Guyanor Plan	1998		1997		1996	
	Shares (000)	Weighted-Average Exercise Price (Cdn\$)	Shares (000)	Weighted-Average Exercise Price (Cdn\$)	Shares (000)	Weighted-Average Exercise Price (Cdn\$)
Outstanding at beginning of year	3,143	\$3.60	2,726	\$3.97	1,611	\$2.13
Granted	-	-	511	\$1.64	1,306	\$6.04
Exercised	(11)	\$1.64	(40)	\$2.68	(191)	\$2.35
Forfeited	(97)	\$5.07	(54)	\$5.08	-	-
Outstanding at end of year	3,035	\$3.56	3,143	\$3.60	2,726	\$3.97
Options exercisable at year-end	3,035		2,213	1,591		
Weighted-average fair value of options granted during the year		N/A		\$1.64		\$6.04

Options Outstanding				Options Exercisable	
Guyanor Plan Range of Exercise Prices (Cdn\$)	Number Outstanding at Dec. 31, 1998 (0000)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price (Cdn\$)	Number Exercisable at Dec. 31, 1998 (000)	Weighted-Average Exercise Price (Cdn\$)
\$1.64 to \$3.30	2,557	6.94	\$2.35	2,456	\$2.38
\$9.20 to \$12.40	478	7.80	\$0.04	478	\$7.80
	3,035			2,934	

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

The following tables summarize information about stock options for the PARC plan:

PARC Plan	1998		1997		1996	
	Shares (000)	Weighted-Average Exercise Price (Cdn\$)	Shares (000)	Weighted-Average Exercise Price (Cdn\$)	Shares (000)	Weighted-Average Exercise Price (Cdn\$)
Outstanding at beginning of year	2,338	\$0.90	2,357	\$0.90	-	-
Granted	-	-	48	\$0.69	2,367	\$0.90
Exercised	-	-	0	-	(10)	\$0.99
Forfeited	(2,338)	\$0.90	(67)	\$0.86	-	-
Outstanding at end of year	-	-	2,338	\$0.90	2,357	\$0.90
Options exercisable at year-end	-	-	1,765	-	1,161	-
Weighted-average fair value of options granted during the year	-	N/A	-	\$0.69	-	\$0.90

**Impact of Recently Issued Accounting Standards**

In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share", effective for financial statements for periods ending after December 15, 1997. The Statement requires dual presentation of basic and diluted earnings per share on the face of the income statement. The Company adopted the Statement effective December 31, 1997, for U.S. GAAP reporting.

In February 1997, the FASB issued SFAS No. 129, "Disclosure of Information about Capital Structure", effective for financial statements for periods ending after December 15, 1997. The Statement requires disclosures about certain preferences and rights of outstanding securities and certain information about redeemable capital stock. At this time the Company has no preferential or redeemable securities that are subject to the new disclosure requirements of the Statement.

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income", effective for financial statements for periods beginning after December 15, 1997. The Statement establishes standards for reporting and display of comprehensive income and its components in financial statements. Comprehensive income for the Company will include items which have historically been included in Shareholders' Equity, such as unrealized gains or losses on marketable equity securities and foreign exchange gains and losses. The Company has complied with the requirements of this statement.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", effective for financial statements for periods beginning after December 15, 1997. The Statement requires the Company to report certain information about operating segments in its financial statements and certain information about its products and services, the geographic areas in which it operates and its major customers. The Company has complied with the disclosure requirements of the Statement.

In February 1998, the FASB issued SFAS No. 132, "Employer's Disclosures about Pensions and Other Post-retirement Benefits", effective for fiscal years beginning after December 15, 1997. The Statement standardizes the disclosure requirements for pensions and other post-retirement benefits to provide information that is more comparable and concise. At this time the Company has no pension or other post-retirement benefit plans that are subject to the requirements of the Statement.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133). FAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. FAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. At this time the Company has no derivative instruments that are subject to the requirements of this statement.

**Operations by Geographic Area under U.S. GAAP**

Information on the Company's continuing operations by geographic area under U.S. GAAP for the years ended December 31, 1998, 1997 and 1996 is shown below. Operating earnings from continuing operations are total revenues less operating expenses of the geographic areas.

	Operating Revenues -----	Net Loss ----	Identifiable Assets -----
1998			
South America	\$ 8	\$ (8,626)	\$18,520
Africa	-	(3,002)	1,034
Corporate	627	(3,767)	7,686
-----			
Total	\$ 635	\$ (15,395)	\$27,240
=====			
1997			
South America	\$ 539	\$ (21,500)	\$22,666
Africa	71	(2,876)	1,197
Corporate	1,088	(2,554)	18,213
-----			
Total	\$1,698	\$ (26,930)	\$42,076
=====			
1996			
South America	\$1,811	\$ (18,431)	\$27,121
Africa	224	(3,261)	4,944
Corporate	766	(3,585)	14,830
-----			
Total	\$2,801	\$ (25,277)	\$46,895
=====			

**16. Subsequent Events**

On January 15, 1999, the Board of Directors of Golden Star Resources Ltd. approved, subject to any necessary regulatory and shareholder approvals, the amendment of certain stock options. The number of shares that can be purchased under these outstanding options has been reduced by 20%. The exercise price of outstanding stock options previously granted by the Corporation to certain directors and officers ("Insiders"), employees and consultants ("Non-Insiders") of the Company was amended to Cdn\$1.80 (if the exercise price was larger than Cdn\$1.80). The exercise price of the stock options being repriced ranges from Cdn\$2.76 to Cdn\$22.40. The total number of shares of the stock options being repriced is 2,525,780. Of that amount 2,026,780 are held by insiders and 499,000 are held by non-insiders. Upon receiving the necessary approvals, the insiders options will be reduced to 1,621,424 (a reduction of 405,356) and the Non-Insiders options will be reduced to 399,200 (a reduction of 99,800).

On March 8, 1999, Mr. James Askew was appointed President and Chief Executive Officer of the Company. In conjunction with his employment agreement with the Company, Mr. Askew was granted an option to purchase 1,000,000 shares of the Company's stock at the price of Cdn\$1.80. This option vests as to one-third on the date of grant and one-third on each of the first and second anniversary dates.

**17. Related Parties**

To consolidate exploration and possible development of the Quartz Hill area with the adjacent Omai property in 1995, the Company entered into a letter of understanding with OGML whereby the Company relinquished all of its right, title, and interest in the Quartz Hill prospecting license in exchange for a beneficial interest in any prospecting license granted to OGML with respect to the same area. Under the letter of understanding OGML may acquire 100% of the Company's beneficial interest by either: (i) making quarterly payments to the Company equal to 25% of net cash

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

flow generated from mining activity on the Quartz Hill property; or (ii) issuing to the Company, upon commencement of production at Quartz Hill, 1,386,000 Class IV Preference Shares with a par value of \$1.00 per share, i.e., the equivalent of the approximate historical book value of the Company's investment in the Quartz Hill property. Such shares would be fully redeemable in equal quarterly installments during the 36-month period following commencement of commercial production from Quartz Hill. In January 1997, OGML was awarded prospecting licenses for the Quartz Hill area and the Omai River area. Execution of a definitive agreement between Cambior, OGML and the Company is subject to execution of an acceptable mineral agreement regarding the Quartz Hill and Omai River properties. This agreement is subject to approval by the Board of Directors of OGML, and, for certain matters, approval of OGML's shareholders.

### 18. Commitments and Contingencies

#### **Environmental Regulations**

The Company is not aware of any events of material non-compliance in its operations with environmental laws and regulations which could have a material adverse effect on the Company's operations or financial condition. The exact nature of environmental control problems, if any, which the Company may encounter in the future cannot be predicted, primarily because of the changing character of environmental requirements that may be enacted within foreign jurisdictions.

#### **Business Risk**

All of the Company's mineral properties are located in developing countries with the exception of French Guiana, a Departement of France. There are certain business and political risks inherent in doing business in developing countries. In particular, the regulatory framework for conducting mining and exploration activities in these countries, including the tax and general fiscal regimes and the manner in which mineral rights and title to mineral properties are established and maintained are often uncertain, incomplete, in a state of flux or subject to change without notice. Further, in many of the countries in which the Company's projects are located it may not be economically feasible to develop a commercial mine unless special tax or other fiscal and regulatory concessions are obtained from the applicable government and regulatory authorities. There can be no assurance that the Company will be able to execute or enforce satisfactory mineral agreements or to obtain satisfactory political risk insurance on commercially reasonable terms for any or all of its properties.

#### **Letters of Credit and Guarantee**

In 1998, PARC's custom duty obligations in the Ivory Coast expired and the bank guarantee of \$0.25 million was cancelled.

On June 5, 1997, PARC's performance bond requirements under its Exploration License Agreement with the Government of Eritrea were reduced from \$1.3 million to \$0.7 million. As a result, the bank guarantee and restricted cash collateral supporting the performance bond were reduced by \$0.6 million. In August 1997, the remaining performance bond requirements were released by the Government of Eritrea and the bank guarantee and restricted cash collateral supporting the performance bond were reduced by the remaining \$0.7 million. As of September 30, 1997, the Company had no remaining restricted cash balances relating to Eritrea. The Company's performance bond of \$0.45 million for the benefit of the Ministry of Mines and Energy in Ethiopia guaranteeing the second year exploration program at the Dul project in Ethiopia expired on October 16, 1997. The letter of credit collateralizing the performance bond expired on October 31, 1997, and the funds held as restricted cash collateral for the letter of credit were released in November 1997.

#### **Potential Litigation**

On December 17, 1998, SMSE notified Texmine of its intention to terminate the Dieu-Merci option agreement. After several attempts to substantially reduce or eliminate the minimum commitments and property payments specified in the agreement failed, SMSE decided to withdraw from the option agreement. Following the termination

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(All tabular amounts in thousands of United States Dollars)

of the option agreement, the owner of the Dieu-Merci project demanded from SMSE the sum of ff 2,000,0000 (approximately \$350,000), which according to Texmine is owed to it in spite of the termination of the option agreement. SMSE does not believe that such sum is owed and , therefore, intends to defend itself vigorously against any legal action that Texmine may take to obtain payment. There can be no assurance, however, that SMSE will be successful.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING**

**AND FINANCIAL DISCLOSURE**

There have been no disagreements with PricewaterhouseCoopers LLP, the Company's chartered accountants, regarding any matter of accounting principles or practices or financial statement disclosure.

## **PART III**

### **ITEMS 10, 11, 12 AND 13.**

In accordance with General Instruction G(3), the information required by Part III (with the exception of certain information regarding the Company's executive officers set forth above under Item 4A of this Form 10-K) is hereby incorporated by reference from the Company's proxy statement to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

**PART IV**

**ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON**

**FORM 8-K**

(a) The following documents are filed as part of this Report:

1. Financial Statements

Management's Report

Auditors' Report

Consolidated Balance Sheets as of December 31, 1998 and 1997 Consolidated Statements of Operations Years Ended December 31, 1998, 1997 and 1996

Consolidated Statement of Changes in Shareholders' Equity Years Ended December 31, 1998, 1997 and 1996

Consolidated Statements of Cash Flows Years Ended December 31, 1998, 1997 and 1996

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Financial Statement schedules have been omitted since they are either not required, are not applicable, or the required information is shown in the financial statements or related notes.

(b) Reports on Form 8-K.

The Company filed with the Securities and Exchange Commission on November 5, 1998 a Form 8-K announcing the resignation of David A. Fennell as President and Chief Executive Officer and as director of the Company.

**EXHIBITS**

	Seq. Page No. -----
2.1	Articles of Arrangement dated March 7, 1995 with Plan of Arrangement attached (incorporated by reference to Exhibit 2.1 to the Company's Form 10-K for the year ended December 31, 1994)
3.1	Articles of Amalgamation of the Company (incorporated by reference to Exhibit 1.1 to the Company's Registration Statement on Form 20-F, filed on May 10, 1993)
3.2	By-laws of the Company (incorporated by reference to Exhibit 1.2 to the Company's Registration Statement on Form 20-F, filed on May 10, 1993)
3.2(a)	By-law Number One amended and restated (incorporated by reference to Exhibit 3 to the Company's Form 10-Q for quarter ended June 30, 1995)
4.1	Form of Stock Certificate (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 filed on July 15, 1994)
4.1(a)	Registration Statement Form S-3 (333-12673) (incorporated by reference as filed on October 2, 1997)
4.2	Omitted
10.1	Omitted

- 10.2 Memorandum of Association of Omai Gold Mines dated August 15, 1990 and entered into among Cambior, the Company and the Government of Guyana (incorporated by reference to Exhibit 3.4 to the Company's Registration Statement on Form 20-F, filed on May 10, 1993)
- 10.3 Omai Mineral Agreement dated August 16, 1992 respecting the Omai Gold Mine (incorporated by reference to Exhibit 3.10 to the Company's Registration Statement on Form 20-F, filed on May 10, 1993)
- 10.4 Omitted
- 10.5 Omitted
- 10.6 Gross Rosebel Mineral Agreement dated April 7, 1994 between The Republic of Suriname, Grasshopper Aluminum Company N.V. and the Company (English translation) (incorporated by reference to Exhibit 10.9 to the Company's Form 10-K for the year ended December 31, 1994)
- 10.7 Option Agreement dated June 1, 1994 between Cambior Inc. and the Company regarding the Gross Rosebel property (incorporated by reference to Exhibit 10.10 to the Company's Form 10-K for the year ended December 31, 1994)
- 10.8 Option Agreement dated May 11, 1994 between Cambior Inc. and the Company regarding Yaou and Dorlin properties (incorporated by reference to Exhibit 10.11 to the Company's Form 10-K for the year ended December 31, 1994)
- 10.9 Omitted

10.10 Omitted

10.11 Omitted

10.12 Omitted

10.13 Omitted

10.14 Omitted

10.15 Omitted

10.16 Omitted

10.17 Omitted

10.18 Management Services Agreement dated January 1, 1995 between the Company and Guyanor Ressources S.A. (incorporated by reference to Exhibit 10.18 to the Company's Form 10-K for the year ended December 31, 1995)

10.19 Omitted

10.20 Omitted

10.21 Omitted

10.22 Omitted

10.23 Omitted

10.24 English translation of the Exploration Agreement dated May 13, 1996, between the Company's wholly owned subsidiary Southern Star Resources Ltd. and its wholly-owned Brazilian subsidiary, Estrela Sul do Brasil Empreendimentos Ltda. and Companhia Vale do Rio Doce and its subsidiary Rio Doce Geologia e Mineracao S.A. (incorporated by reference to Exhibit 10.24 to the Company's Form 10-K for the year ended December 31, 1996)

10.25 Omitted

10.26 English translation of the Option and Joint Venture Agreement dated June 26, 1996, between Societe de Travaux Publics et de Mines Aurifere en Guyane, Societe Guyanaise des Mines, LaSource Developpement SAS and ASARCO Exploration Company for the Paul Isnard property (incorporated by reference to Exhibit 10.26 to the Company's Form 10-K for the year ended December 31, 1996)

10.27 Heads of Agreement dated July 22, 1996, between the Company and BHP Minerals International Exploration Inc. regarding the Guyana Reconnaissance Project (incorporated by reference to Exhibit 10.27 to the Company's Form 10-K for the year ended December 31, 1996)

10.28 Heads of Agreement dated November 13, 1996, between the Company and BHP Minerals International Exploration Inc. regarding the South Benzdorp Project in Suriname (incorporated by reference to Exhibit 10.28 to the Company's Form 10-K for the year ended December 31, 1996)

10.29 Heads of Agreement dated August 19, 1996, and amendment No. 1 dated October 25, 1996, between the Company and BHP Minerals International Exploration Inc. regarding the Suriname Reconnaissance Project (incorporated by reference to Exhibit 10.29 to the Company's Form 10-K for the year ended December 31, 1996)

10.30 Omitted

10.31 Omitted

10.32 Omitted

10.33 Omitted

10.33(a) 1997 Stock Option Plan (incorporated by reference to Exhibit 10 to the Company's Form 10-Q for the period ended June 30, 1997)

10.34 Employees' Stock Bonus Plan amended and restated to June 7, 1995 (incorporated by reference to Exhibit 10.25 to the Company's Form 10-K for the year ended December 31, 1995)

10.35 Guyanor Ressources S.A. Stock Option Plan (English translation) (incorporated by reference to Exhibit 10.26 to the Company's Form 10-K for the year ended December 31, 1995)

10.36 Pan African Resources Corporation Stock Option Plan (incorporated by reference to Exhibit 10.27 to the Company's Form 10-K for the year ended December 31, 1995)

- 10.37 Standardized Adoption Agreement for a 401-K Savings Plan adopted January 1, 1996 (incorporated by reference to Exhibit 10.28 to the Company's Form 10-K for the year ended December 31, 1995)
- 10.38 Employment Contracts of Messrs. Fagin, Bertoni and Shields, dated May 15, 1992, January 1, 1994, and January 1, 1994, respectively. (incorporated by reference to Exhibit 10.29 to the Company's Form 10-K for the year ended December 31, 1995)

10.38(a) Employment contracts of Messrs. Bell, Peloquin and Winters dated October 24, 1995, November 25, 1997, and August 7, 1995, respectively (incorporated by reference to Exhibit 10.38(a) to the Company's Form 10-K for the year ended December 31, 1997.)

10.38(b) Change In Control Agreements between the Company and Messrs. Bell,

Fennell, Fleming, Peloquin and Winters dated December 17, 1997 (incorporated by reference to Exhibit 10.38(b) to the Company's Form 10-K for the year ended December 31, 1997.)

- 10.39 Agreements between the Company and its outside directors, dated December 8, 1995, and December 10, 1996 (incorporated by reference as Exhibit 10.39 to the Company's Form 10-K for the year ended December 31, 1996) granting them options to purchase Guyanor Class "B" common shares

10.39(a) Agreements between the Company and its outside directors, dated December 9, 1997 granting them options to purchase Guyanor Class "B" common shares (incorporated by reference to Exhibit 10.39(b) to the Company's Form 10-K for the year ended December 31, 1997.)

10.39(b) Agreements between the Company and its outside directors dated December

8, 1998 granting them options to purchase Guyanor Class "B" common shares.

- 10.40 Amendment of Employment Agreement dated May 1, 1996, amending the Employment Agreement dated May 15, 1992, between the Company and David K. Fagin (incorporated by reference to Exhibit 10.40 to the Company's Form 10-K for the year ended December 31, 1996)
- 10.41 Omitted
- 10.42 Rights Agreement dated April 24, 1996, between the Company and The R-M Trust Company (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K dated May 7, 1996)
- 21.1 Subsidiaries of the Registrant
- 23.1 Consent of PricewaterhouseCoopers LLP, Chartered Accountants
- 23.2 Consent of SRK Consulting
- 27.1 Financial Data Schedule

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### GOLDEN STAR RESOURCES LTD. Registrant

By: /s/ James E. Askew  
-----

JAMES E. ASKEW  
President and Chief Executive Officer

Date: March 26, 1999  
-----

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

By: /s/ James E. Askew -----	By: /s/ Gordon J. Bell -----
Name: James E. Askew -----	Name: Gordon J. Bell -----
Title: President and CEO -----	Title: Vice-President and Chief Financial Officer -----
Date: March 26, 1999 -----	Date: March 26, 1999 -----
By: /s/ David K. Fagin -----	By: /s/ Pierre Gousseland -----
Name: David K. Fagin -----	Name: Pierre Gousseland -----
Title: Director -----	Title: Director -----
Date: March 29, 1999 -----	Date: March 29, 1999 -----
By: /s/ Philip S. Martin -----	By: /s/ Ernest C. Mercier -----
Name: Philip S. Martin -----	Name: Ernest C. Mercier -----
Title: Director -----	Title: Director -----
Date: March 29, 1999 -----	Date: March 29, 1999 -----

By: /s/ Roger D. Morton By: /s/ Richard A. Stark  
-----

Name: Roger D. Morton Name: Richard A. Stark  
-----

Title: Director Title: Director  
-----

Date: March 29, 1999 Date: March 29, 1999  
-----

By: /s/ Robert R. Stone  
-----

Name: Robert R. Stone  
-----

Title: Director  
-----

Date: March 29, 1999  
-----

**Exhibit 10.39 (b)**

Agreements between the Company and its outside Directors dated December 8, 1998.

## **OPTION AGREEMENT**

THIS AGREEMENT is entered into effective as of the 8th day of December, 1998 (the "Date of Grant")

### **BETWEEN:**

Golden Star Resources Ltd., a corporation created by amalgamation under the laws of Canada and having its registered office at 885 W. Georgia Street, 19th Floor, Vancouver, BC, Canada V6C 3H4

(hereinafter called the "Company")

### **OF THE FIRST PART**

AND: DAVID FAGIN, residing at 33 Glenmoor Drive, Englewood, CO, 80110

(hereinafter called the "Optionee")

### **OF THE SECOND PART**

### **WHEREAS:**

A. The Company is the registered and beneficial owner of certain Class B common shares (the "Class B Shares") in Guyanor Ressources S.A. ("Guyanor"), a "societe anonyme" constituted under the laws of France;

B. Guyanor is a controlled subsidiary of the Company and the Company will directly benefit from the business success of Guyanor;

C. In consideration of the service rendered by the Optionee, the Company desires to grant an option to the Optionee to purchase certain Class B Shares of Guyanor from the Company.

NOW THEREFORE in consideration of the premises and of the covenants and conditions hereinafter set forth, the parties hereto agree as follows:

#### **1. Grant**

The Company hereby grants to the Optionee the option (the "Option") to purchase, effective the Date of the Grant and upon and subject to all the terms and conditions set forth herein, 10,000 Class B Shares of Guyanor which are owned by the Company (collectively, the "Optioned Shares").

#### **2. Exercise Price**

The exercise price for Optioned Shares shall be \$1.05 (CDN) per share (the "Exercise Price").

#### **3. Exercise**

The Option shall vest immediately.

If the Optionee is subject to section 16 of the United States Securities Act of 1934, as amended (the "Exchange Act"), the Optionee shall be precluded from exercising the Option unless, at the time of exercise of his Option, six months have elapsed since the date of grant of the Option.

Except as provided in paragraph 5 hereof, the Option may only be exercised while the Optionee is at the time of such exercise a director of the Company and shall have continuously so served since the grant of the Option.

The Optionee may exercise the Option by giving written notice to the Company and delivering to the Company a certified cheque in an amount equal to the number of Optioned Shares in respect of which the Option is being exercised multiplied by the Exercise Price. Upon compliance with the foregoing but subject to paragraph 8 hereof, the Company agrees to do all things necessary in accordance with Guyanor's share transfer procedures in order to cause the Optionee to become the beneficial owner of such number of Optioned Shares in respect of which the Option is exercised. The Optionee acknowledges that, due to French law considerations, Class B Shares of Guyanor are not represented by share certificates and the Optionee will comply with Guyanor's share registration and transfer procedures.

#### 4. Option Not Transferable

The Option is not transferable or assignable except by will or by the laws of descent and distribution.

#### 5. Termination of Option

The Option shall terminate, to the extent not previously exercised, upon the first to occur of the following dates:

(a) at 5:00 p.m. (Denver, Colorado time) on the date which is ten years from the Date of Grant, the expiration date of the Option;

(b) one year after the Optionee ceases to be a Director of the Company for any reason; in the event of death, the Option may be exercised within such year by the person to whom the Optionee's rights under the Option shall pass by the Optionee's will or by the laws of descent and distribution to the extent that the Optionee was entitled to exercise the Option at his death.

#### 6. Adjustments in Shares

The Option confers upon the Optionee the option to purchase Class B Shares as they are constituted at the Date of Grant. If prior to the exercise of the Option Guyanor is required under French law to make adjustments in the value of its Class B Shares, the Company agrees that it will make corresponding adjustments to the number of Optioned Shares or the Exercise Price.

#### 7. Professional Advice

The acceptance and exercise of the Option and the sale of the Optioned Shares issued pursuant to the exercise of the Option may have consequences under applicable tax and securities laws

which may vary depending on the individual circumstances of the Optionee. Accordingly, the Optionee acknowledges that he has been advised to consult his personal legal and tax advisor in connection with this Agreement and his dealings with respect to the Option and the acquisition of the Optioned Shares from the Company.

## 8. Regulatory Approvals

The Option shall be subject to any necessary approval of and acceptance by any stock exchange on which the Optioned Shares are listed and any other regulatory authority having jurisdiction over the Company or Guyanor. The Optionee acknowledges that the grant of the Option by the Company to the Optionee and the transfer of the Optioned Shares by the Company to the Optionee upon any exercise of the Option are subject to applicable securities laws and regulations.

The Optionee further acknowledges that such Option grant and any transfer of Optioned Shares are subject to appropriate exemptions from the registration and prospectus requirements of such applicable securities laws and regulations being available to the Company and no prospectus or registration statement having to be filed by the Company. To the extent Canadian securities laws are applicable, the Company agrees to apply to relevant Canadian securities regulatory authorities for any necessary order exempting the Company from applicable Canadian registration and prospectus requirements and/or to file with relevant securities regulatory authorities any necessary notices of intention to sell. The Optionee agrees to comply with any conditions of exemptions or exemption orders from applicable registration and prospectus requirements for the Option grant, any transfer of Optioned Shares from the Company to the Optionee and any resale of the Optioned Shares by the Optionee, and acknowledges and agrees to any time delays or hold periods that may be required in connection with the use of or reliance on such applicable exemptions or exemption orders.

Where necessary to effect exemption from registration or distribution of the Optioned Shares under securities laws applicable to the securities of the Guyanor, the Optionee shall be required, upon the acquisition of any Optioned Shares pursuant to this Option to acquire the Shares with investment intent (i.e., for investment purposes) and not with a view to their distribution, and the Board of Directors of the Company may require the Optionee to sign an undertaking to that effect in a form acceptable to the Board of Directors. The Board of Directors may take such other action or require such other action or agreement by the Optionee as may from time to time be necessary to comply with applicable securities laws. If for any reason exemptions from or exemption orders relating to applicable registration and prospectus requirements under all relevant securities laws are not available to the Company in connection with the Option grant and any transfer of Optioned Shares, the Company will notify the Optionee as soon as it is aware of the same and the Option will be null and void and this Agreement will have no further force or effect.

## 9. Notices

Any notice to be given hereunder shall be deemed to have been well and sufficiently given if mailed by prepaid registered mail, telexed, telecopied, telegraphed or delivered to the parties at the addresses specified above or at such other address as each party may from time to time direct in writing. Any such notice shall be deemed to have been received if mailed, telexed, telecopied, or telegraphed, forty-eight hours after the time of mailing, telexing, telecopying or telegraphing

and if delivered, upon delivery. If normal mail service is interrupted by a labor dispute, slowdown, strike, force majeure, or other cause, a notice sent by mail shall not be deemed to be received until actually received, and the party giving such notice shall use such other service as may be available to ensure prompt delivery or shall deliver such notice.

#### 10. Governing Law

This Agreement shall be construed and enforced in accordance with the laws of the Province of British Columbia and the Federal laws of Canada applicable therein.

#### 11. Time of the Essence

Time shall be of the essence in the performance of obligations under this Agreement.

#### 12. Entire Agreement

This Agreement supersedes all prior and contemporaneous oral and written statements and representations and contains the entire agreement between the parties with respect to the Option.

IN WITNESS WHEREOF the parties have executed these presents as of the day and the year first above written.

#### **GOLDEN STAR RESOURCES LTD.**

By: \_\_\_\_\_/s/\_\_\_\_\_  
LOUIS PELOQUIN  
VICE PRESIDENT, GENERAL COUNSEL

\_\_\_\_\_/s/\_\_\_\_\_  
DAVID FAGIN

## **OPTION AGREEMENT**

THIS AGREEMENT is entered into effective as of the 8th day of December, 1998 (the "Date of Grant")

### **BETWEEN:**

GOLDEN STAR RESOURCES LTD., a corporation created by amalgamation under the laws of Canada and having its registered office at 885 W. Georgia Street, 19th Floor, Vancouver, BC, Canada V6C 3H4

(hereinafter called the "Company")

### **OF THE FIRST PART**

AND: PIERRE GOUSSELAND, residing at 4 Lafayette Court, Greenwich, CT, 06830

(hereinafter called the "Optionee")

### **OF THE SECOND PART**

### **WHEREAS:**

- A. The Company is the registered and beneficial owner of certain Class B common shares (the "Class B Shares") in Guyanor Ressources S.A. ("Guyanor"), a "societe anonyme" constituted under the laws of France;
- B. Guyanor is a controlled subsidiary of the Company and the Company will directly benefit from the business success of Guyanor;
- C. In consideration of the service rendered by the Optionee, the Company desires to grant an option to the Optionee to purchase certain Class B Shares of Guyanor from the Company.

NOW THEREFORE in consideration of the premises and of the covenants and conditions hereinafter set forth, the parties hereto agree as follows:

#### **1. Grant**

The Company hereby grants to the Optionee the option (the "Option") to purchase, effective the Date of the Grant and upon and subject to all the terms and conditions set forth herein, 10,000 Class B Shares of Guyanor which are owned by the Company (collectively, the "Optioned Shares").

#### **2. Exercise Price**

The exercise price for Optioned Shares shall be \$1.05 (CDN) per share (the "Exercise Price").

#### **3. Exercise**

The Option shall vest immediately.

If the Optionee is subject to section 16 of the United States Securities Act of 1934, as amended (the "Exchange Act"), the Optionee shall be precluded from exercising the Option unless, at the time of exercise of his Option, six months have elapsed since the date of grant of the Option.

Except as provided in paragraph 5 hereof, the Option may only be exercised while the Optionee is at the time of such exercise a director of the Company and shall have continuously so served since the grant of the Option.

The Optionee may exercise the Option by giving written notice to the Company and delivering to the Company a certified cheque in an amount equal to the number of Optioned Shares in respect of which the Option is being exercised multiplied by the Exercise Price. Upon compliance with the foregoing but subject to paragraph 8 hereof, the Company agrees to do all things necessary in accordance with Guyanor's share transfer procedures in order to cause the Optionee to become the beneficial owner of such number of Optioned Shares in respect of which the Option is exercised. The Optionee acknowledges that, due to French law considerations, Class B Shares of Guyanor are not represented by share certificates and the Optionee will comply with Guyanor's share registration and transfer procedures.

#### 4. Option Not Transferable

The Option is not transferable or assignable except by will or by the laws of descent and distribution.

#### 5. Termination of Option

The Option shall terminate, to the extent not previously exercised, upon the first to occur of the following dates:

(a) at 5:00 p.m. (Denver, Colorado time) on the date which is ten years from the Date of Grant, the expiration date of the Option;

(b) one year after the Optionee ceases to be a Director of the Company for any reason; in the event of death, the Option may be exercised within such year by the person to whom the Optionee's rights under the Option shall pass by the Optionee's will or by the laws of descent and distribution to the extent that the Optionee was entitled to exercise the Option at his death.

#### 6. Adjustments in Shares

The Option confers upon the Optionee the option to purchase Class B Shares as they are constituted at the Date of Grant. If prior to the exercise of the Option Guyanor is required under French law to make adjustments in the value of its Class B Shares, the Company agrees that it will make corresponding adjustments to the number of Optioned Shares or the Exercise Price.

#### 7. Professional Advice

The acceptance and exercise of the Option and the sale of the Optioned Shares issued pursuant to the exercise of the Option may have consequences under applicable tax and securities laws

which may vary depending on the individual circumstances of the Optionee. Accordingly, the Optionee acknowledges that he has been advised to consult his personal legal and tax advisor in connection with this Agreement and his dealings with respect to the Option and the acquisition of the Optioned Shares from the Company.

## 8. Regulatory Approvals

The Option shall be subject to any necessary approval of and acceptance by any stock exchange on which the Optioned Shares are listed and any other regulatory authority having jurisdiction over the Company or Guyanor. The Optionee acknowledges that the grant of the Option by the Company to the Optionee and the transfer of the Optioned Shares by the Company to the Optionee upon any exercise of the Option are subject to applicable securities laws and regulations.

The Optionee further acknowledges that such Option grant and any transfer of Optioned Shares are subject to appropriate exemptions from the registration and prospectus requirements of such applicable securities laws and regulations being available to the Company and no prospectus or registration statement having to be filed by the Company. To the extent Canadian securities laws are applicable, the Company agrees to apply to relevant Canadian securities regulatory authorities for any necessary order exempting the Company from applicable Canadian registration and prospectus requirements and/or to file with relevant securities regulatory authorities any necessary notices of intention to sell. The Optionee agrees to comply with any conditions of exemptions or exemption orders from applicable registration and prospectus requirements for the Option grant, any transfer of Optioned Shares from the Company to the Optionee and any resale of the Optioned Shares by the Optionee, and acknowledges and agrees to any time delays or hold periods that may be required in connection with the use of or reliance on such applicable exemptions or exemption orders.

Where necessary to effect exemption from registration or distribution of the Optioned Shares under securities laws applicable to the securities of the Guyanor, the Optionee shall be required, upon the acquisition of any Optioned Shares pursuant to this Option to acquire the Shares with investment intent (i.e., for investment purposes) and not with a view to their distribution, and the Board of Directors of the Company may require the Optionee to sign an undertaking to that effect in a form acceptable to the Board of Directors. The Board of Directors may take such other action or require such other action or agreement by the Optionee as may from time to time be necessary to comply with applicable securities laws. If for any reason exemptions from or exemption orders relating to applicable registration and prospectus requirements under all relevant securities laws are not available to the Company in connection with the Option grant and any transfer of Optioned Shares, the Company will notify the Optionee as soon as it is aware of the same and the Option will be null and void and this Agreement will have no further force or effect.

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#### 10. Governing Law

This Agreement shall be construed and enforced in accordance with the laws of the Province of British Columbia and the Federal laws of Canada applicable therein.

#### 11. Time of the Essence

Time shall be of the essence in the performance of obligations under this Agreement.

#### 12. Entire Agreement

This Agreement supersedes all prior and contemporaneous oral and written statements and representations and contains the entire agreement between the parties with respect to the Option.

IN WITNESS WHEREOF the parties have executed these presents as of the day and the year first above written.

#### **GOLDEN STAR RESOURCES LTD.**

By: \_\_\_\_\_/s/\_\_\_\_\_  
LOUIS PELOQUIN  
VICE PRESIDENT, GENERAL COUNSEL

\_\_\_\_\_/s/\_\_\_\_\_  
PIERRE GOUSSELAND

## OPTION AGREEMENT

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### **BETWEEN:**

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(hereinafter called the "Company")

### **OF THE FIRST PART**

AND: PHILIP MARTIN, residing at 16 Ennisclare Drive West, Oakville,  
Ontario, L6J 4N2 CANADA

(hereinafter called the "Optionee")

OF THE SECOND PART

### **WHEREAS:**

- A. The Company is the registered and beneficial owner of certain Class B common shares (the "Class B Shares") in Guyanor Ressources S.A. ("Guyanor"), a "societe anonyme" constituted under the laws of France;
- B. Guyanor is a controlled subsidiary of the Company and the Company will directly benefit from the business success of Guyanor;
- C. In consideration of the service rendered by the Optionee, the Company desires to grant an option to the Optionee to purchase certain Class B Shares of Guyanor from the Company.

NOW THEREFORE in consideration of the premises and of the covenants and conditions hereinafter set forth, the parties hereto agree as follows:

#### 1. Grant

The Company hereby grants to the Optionee the option (the "Option") to purchase, effective the Date of the Grant and upon and subject to all the terms and conditions set forth herein, 10,000 Class B Shares of Guyanor which are owned by the Company (collectively, the "Optioned Shares").

#### 2. Exercise Price

The exercise price for Optioned Shares shall be \$1.05 (CDN) per share (the "Exercise Price").

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The Option shall vest immediately.

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The Optionee may exercise the Option by giving written notice to the Company and delivering to the Company a certified cheque in an amount equal to the number of Optioned Shares in respect of which the Option is being exercised multiplied by the Exercise Price. Upon compliance with the foregoing but subject to paragraph 8 hereof, the Company agrees to do all things necessary in accordance with Guyanor's share transfer procedures in order to cause the Optionee to become the beneficial owner of such number of Optioned Shares in respect of which the Option is exercised. The Optionee acknowledges that, due to French law considerations, Class B Shares of Guyanor are not represented by share certificates and the Optionee will comply with Guyanor's share registration and transfer procedures.

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#### 7. Professional Advice

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which may vary depending on the individual circumstances of the Optionee. Accordingly, the Optionee acknowledges that he has been advised to consult his personal legal and tax advisor in connection with this Agreement and his dealings with respect to the Option and the acquisition of the Optioned Shares from the Company.

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IN WITNESS WHEREOF the parties have executed these presents as of the day and the year first above written.

#### **GOLDEN STAR RESOURCES LTD.**

By: \_\_\_\_\_/s/  
LOUIS PELOQUIN  
VICE PRESIDENT, GENERAL COUNSEL

\_\_\_\_\_/s/  
PHILIP MARTIN

## **OPTION AGREEMENT**

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### **BETWEEN:**

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(hereinafter called the "Company")

### **OF THE FIRST PART**

AND: DONALD MAZANKOWSKI, residing at 5238-45B Avenue, Vegreville, Alberta,  
T9C 1S5 CANADA

(hereinafter called the "Optionee")

OF THE SECOND PART

### **WHEREAS:**

- A. The Company is the registered and beneficial owner of certain Class B common shares (the "Class B Shares") in Guyanor Ressources S.A. ("Guyanor"), a "societe anonyme" constituted under the laws of France;
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Where necessary to effect exemption from registration or distribution of the Optioned Shares under securities laws applicable to the securities of the Guyanor, the Optionee shall be required, upon the acquisition of any Optioned Shares pursuant to this Option to acquire the Shares with investment intent (i.e., for investment purposes) and not with a view to their distribution, and the Board of Directors of the Company may require the Optionee to sign an undertaking to that effect in a form acceptable to the Board of Directors. The Board of Directors may take such other action or require such other action or agreement by the Optionee as may from time to time be necessary to comply with applicable securities laws. If for any reason exemptions from or exemption orders relating to applicable registration and prospectus requirements under all relevant securities laws are not available to the Company in connection with the Option grant and any transfer of Optioned Shares, the Company will notify the Optionee as soon as it is aware of the same and the Option will be null and void and this Agreement will have no further force or effect.

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IN WITNESS WHEREOF the parties have executed these presents as of the day and the year first above written.

#### **GOLDEN STAR RESOURCES LTD.**

By: \_\_\_\_\_/s/\_\_\_\_\_  
LOUIS PELOQUIN  
VICE PRESIDENT, GENERAL COUNSEL

\_\_\_\_\_/s/\_\_\_\_\_  
DONALD MAZANKOWSKI

## OPTION AGREEMENT

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(hereinafter called the "Company")

### **OF THE FIRST PART**

AND: ERNEST MERCIER, residing at 77 Strathallan Blvd., Toronto, Ontario,  
M5N 1S8 CANADA

(hereinafter called the "Optionee")

OF THE SECOND PART

### **WHEREAS:**

- A. The Company is the registered and beneficial owner of certain Class B common shares (the "Class B Shares") in Guyanor Ressources S.A. ("Guyanor"), a "societe anonyme" constituted under the laws of France;
- B. Guyanor is a controlled subsidiary of the Company and the Company will directly benefit from the business success of Guyanor;
- C. In consideration of the service rendered by the Optionee, the Company desires to grant an option to the Optionee to purchase certain Class B Shares of Guyanor from the Company.

NOW THEREFORE in consideration of the premises and of the covenants and conditions hereinafter set forth, the parties hereto agree as follows:

#### 1. Grant

The Company hereby grants to the Optionee the option (the "Option") to purchase, effective the Date of the Grant and upon and subject to all the terms and conditions set forth herein, 10,000 Class B Shares of Guyanor which are owned by the Company (collectively, the "Optioned Shares").

#### 2. Exercise Price

The exercise price for Optioned Shares shall be \$1.05 (CDN) per share (the "Exercise Price").

#### 3. Exercise

The Option shall vest immediately.

If the Optionee is subject to section 16 of the United States Securities Act of 1934, as amended (the "Exchange Act"), the Optionee shall be precluded from exercising the Option unless, at the time of exercise of his Option, six months have elapsed since the date of grant of the Option.

Except as provided in paragraph 5 hereof, the Option may only be exercised while the Optionee is at the time of such exercise a director of the Company and shall have continuously so served since the grant of the Option.

The Optionee may exercise the Option by giving written notice to the Company and delivering to the Company a certified cheque in an amount equal to the number of Optioned Shares in respect of which the Option is being exercised multiplied by the Exercise Price. Upon compliance with the foregoing but subject to paragraph 8 hereof, the Company agrees to do all things necessary in accordance with Guyanor's share transfer procedures in order to cause the Optionee to become the beneficial owner of such number of Optioned Shares in respect of which the Option is exercised. The Optionee acknowledges that, due to French law considerations, Class B Shares of Guyanor are not represented by share certificates and the Optionee will comply with Guyanor's share registration and transfer procedures.

#### 4. Option Not Transferable

The Option is not transferable or assignable except by will or by the laws of descent and distribution.

#### 5. Termination of Option

The Option shall terminate, to the extent not previously exercised, upon the first to occur of the following dates:

(a) at 5:00 p.m. (Denver, Colorado time) on the date which is ten years from the Date of Grant, the expiration date of the Option;

(b) one year after the Optionee ceases to be a Director of the Company for any reason; in the event of death, the Option may be exercised within such year by the person to whom the Optionee's rights under the Option shall pass by the Optionee's will or by the laws of descent and distribution to the extent that the Optionee was entitled to exercise the Option at his death.

#### 6. Adjustments in Shares

The Option confers upon the Optionee the option to purchase Class B Shares as they are constituted at the Date of Grant. If prior to the exercise of the Option Guyanor is required under French law to make adjustments in the value of its Class B Shares, the Company agrees that it will make corresponding adjustments to the number of Optioned Shares or the Exercise Price.

#### 7. Professional Advice

The acceptance and exercise of the Option and the sale of the Optioned Shares issued pursuant to the exercise of the Option may have consequences under applicable tax and securities laws

which may vary depending on the individual circumstances of the Optionee. Accordingly, the Optionee acknowledges that he has been advised to consult his personal legal and tax advisor in connection with this Agreement and his dealings with respect to the Option and the acquisition of the Optioned Shares from the Company.

## 8. Regulatory Approvals

The Option shall be subject to any necessary approval of and acceptance by any stock exchange on which the Optioned Shares are listed and any other regulatory authority having jurisdiction over the Company or Guyanor. The Optionee acknowledges that the grant of the Option by the Company to the Optionee and the transfer of the Optioned Shares by the Company to the Optionee upon any exercise of the Option are subject to applicable securities laws and regulations.

The Optionee further acknowledges that such Option grant and any transfer of Optioned Shares are subject to appropriate exemptions from the registration and prospectus requirements of such applicable securities laws and regulations being available to the Company and no prospectus or registration statement having to be filed by the Company. To the extent Canadian securities laws are applicable, the Company agrees to apply to relevant Canadian securities regulatory authorities for any necessary order exempting the Company from applicable Canadian registration and prospectus requirements and/or to file with relevant securities regulatory authorities any necessary notices of intention to sell. The Optionee agrees to comply with any conditions of exemptions or exemption orders from applicable registration and prospectus requirements for the Option grant, any transfer of Optioned Shares from the Company to the Optionee and any resale of the Optioned Shares by the Optionee, and acknowledges and agrees to any time delays or hold periods that may be required in connection with the use of or reliance on such applicable exemptions or exemption orders.

Where necessary to effect exemption from registration or distribution of the Optioned Shares under securities laws applicable to the securities of the Guyanor, the Optionee shall be required, upon the acquisition of any Optioned Shares pursuant to this Option to acquire the Shares with investment intent (i.e., for investment purposes) and not with a view to their distribution, and the Board of Directors of the Company may require the Optionee to sign an undertaking to that effect in a form acceptable to the Board of Directors. The Board of Directors may take such other action or require such other action or agreement by the Optionee as may from time to time be necessary to comply with applicable securities laws. If for any reason exemptions from or exemption orders relating to applicable registration and prospectus requirements under all relevant securities laws are not available to the Company in connection with the Option grant and any transfer of Optioned Shares, the Company will notify the Optionee as soon as it is aware of the same and the Option will be null and void and this Agreement will have no further force or effect.

## 9. Notices

Any notice to be given hereunder shall be deemed to have been well and sufficiently given if mailed by prepaid registered mail, telexed, telecopied, telegraphed or delivered to the parties at the addresses specified above or at such other address as each party may from time to time direct in writing. Any such notice shall be deemed to have been received if mailed, telexed, telecopied, or telegraphed, forty-eight hours after the time of mailing, telexing, telecopying or telegraphing

and if delivered, upon delivery. If normal mail service is interrupted by a labor dispute, slowdown, strike, force majeure, or other cause, a notice sent by mail shall not be deemed to be received until actually received, and the party giving such notice shall use such other service as may be available to ensure prompt delivery or shall deliver such notice.

#### 10. Governing Law

This Agreement shall be construed and enforced in accordance with the laws of the Province of British Columbia and the Federal laws of Canada applicable therein.

#### 11. Time of the Essence

Time shall be of the essence in the performance of obligations under this Agreement.

#### 12. Entire Agreement

This Agreement supersedes all prior and contemporaneous oral and written statements and representations and contains the entire agreement between the parties with respect to the Option.

IN WITNESS WHEREOF the parties have executed these presents as of the day and the year first above written.

#### **GOLDEN STAR RESOURCES LTD.**

By: \_\_\_\_\_/s/\_\_\_\_\_  
LOUIS PELOQUIN  
VICE PRESIDENT, GENERAL COUNSEL

\_\_\_\_\_/s/\_\_\_\_\_  
ERNEST MERCIER

## OPTION AGREEMENT

THIS AGREEMENT is entered into effective as of the 8th day of December, 1998 (the "Date of Grant")

### **BETWEEN:**

GOLDEN STAR RESOURCES LTD., a corporation created by amalgamation under the laws of Canada and having its registered office at 885 W. Georgia Street, 19th Floor, Vancouver, BC, Canada V6C 3H4

(hereinafter called the "Company")

### **OF THE FIRST PART**

AND: ROBERT MINTO, residing at 168 Bisley, Beaconsfield, Quebec, H9W 1J8  
CANADA

(hereinafter called the "Optionee")

OF THE SECOND PART

### **WHEREAS:**

A. The Company is the registered and beneficial owner of certain Class B common shares (the "Class B Shares") in Guyanor Ressources S.A. ("Guyanor"), a "societe anonyme" constituted under the laws of France;

B. Guyanor is a controlled subsidiary of the Company and the Company will directly benefit from the business success of Guyanor;

C. In consideration of the service rendered by the Optionee, the Company desires to grant an option to the Optionee to purchase certain Class B Shares of Guyanor from the Company.

NOW THEREFORE in consideration of the premises and of the covenants and conditions hereinafter set forth, the parties hereto agree as follows:

#### 1. Grant

The Company hereby grants to the Optionee the option (the "Option") to purchase, effective the Date of the Grant and upon and subject to all the terms and conditions set forth herein, 10,000 Class B Shares of Guyanor which are owned by the Company (collectively, the "Optioned Shares").

#### 2. Exercise Price

The exercise price for Optioned Shares shall be \$1.05 (CDN) per share (the "Exercise Price").

#### 3. Exercise

The Option shall vest immediately.

If the Optionee is subject to section 16 of the United States Securities Act of 1934, as amended (the "Exchange Act"), the Optionee shall be precluded from exercising the Option unless, at the time of exercise of his Option, six months have elapsed since the date of grant of the Option.

Except as provided in paragraph 5 hereof, the Option may only be exercised while the Optionee is at the time of such exercise a director of the Company and shall have continuously so served since the grant of the Option.

The Optionee may exercise the Option by giving written notice to the Company and delivering to the Company a certified cheque in an amount equal to the number of Optioned Shares in respect of which the Option is being exercised multiplied by the Exercise Price. Upon compliance with the foregoing but subject to paragraph 8 hereof, the Company agrees to do all things necessary in accordance with Guyanor's share transfer procedures in order to cause the Optionee to become the beneficial owner of such number of Optioned Shares in respect of which the Option is exercised. The Optionee acknowledges that, due to French law considerations, Class B Shares of Guyanor are not represented by share certificates and the Optionee will comply with Guyanor's share registration and transfer procedures.

#### 4. Option Not Transferable

The Option is not transferable or assignable except by will or by the laws of descent and distribution.

#### 5. Termination of Option

The Option shall terminate, to the extent not previously exercised, upon the first to occur of the following dates:

(a) at 5:00 p.m. (Denver, Colorado time) on the date which is ten years from the Date of Grant, the expiration date of the Option;

(b) one year after the Optionee ceases to be a Director of the Company for any reason; in the event of death, the Option may be exercised within such year by the person to whom the Optionee's rights under the Option shall pass by the Optionee's will or by the laws of descent and distribution to the extent that the Optionee was entitled to exercise the Option at his death.

#### 6. Adjustments in Shares

The Option confers upon the Optionee the option to purchase Class B Shares as they are constituted at the Date of Grant. If prior to the exercise of the Option Guyanor is required under French law to make adjustments in the value of its Class B Shares, the Company agrees that it will make corresponding adjustments to the number of Optioned Shares or the Exercise Price.

#### 7. Professional Advice

The acceptance and exercise of the Option and the sale of the Optioned Shares issued pursuant to the exercise of the Option may have consequences under applicable tax and securities laws

which may vary depending on the individual circumstances of the Optionee. Accordingly, the Optionee acknowledges that he has been advised to consult his personal legal and tax advisor in connection with this Agreement and his dealings with respect to the Option and the acquisition of the Optioned Shares from the Company.

## 8. Regulatory Approvals

The Option shall be subject to any necessary approval of and acceptance by any stock exchange on which the Optioned Shares are listed and any other regulatory authority having jurisdiction over the Company or Guyanor. The Optionee acknowledges that the grant of the Option by the Company to the Optionee and the transfer of the Optioned Shares by the Company to the Optionee upon any exercise of the Option are subject to applicable securities laws and regulations.

The Optionee further acknowledges that such Option grant and any transfer of Optioned Shares are subject to appropriate exemptions from the registration and prospectus requirements of such applicable securities laws and regulations being available to the Company and no prospectus or registration statement having to be filed by the Company. To the extent Canadian securities laws are applicable, the Company agrees to apply to relevant Canadian securities regulatory authorities for any necessary order exempting the Company from applicable Canadian registration and prospectus requirements and/or to file with relevant securities regulatory authorities any necessary notices of intention to sell. The Optionee agrees to comply with any conditions of exemptions or exemption orders from applicable registration and prospectus requirements for the Option grant, any transfer of Optioned Shares from the Company to the Optionee and any resale of the Optioned Shares by the Optionee, and acknowledges and agrees to any time delays or hold periods that may be required in connection with the use of or reliance on such applicable exemptions or exemption orders.

Where necessary to effect exemption from registration or distribution of the Optioned Shares under securities laws applicable to the securities of the Guyanor, the Optionee shall be required, upon the acquisition of any Optioned Shares pursuant to this Option to acquire the Shares with investment intent (i.e., for investment purposes) and not with a view to their distribution, and the Board of Directors of the Company may require the Optionee to sign an undertaking to that effect in a form acceptable to the Board of Directors. The Board of Directors may take such other action or require such other action or agreement by the Optionee as may from time to time be necessary to comply with applicable securities laws. If for any reason exemptions from or exemption orders relating to applicable registration and prospectus requirements under all relevant securities laws are not available to the Company in connection with the Option grant and any transfer of Optioned Shares, the Company will notify the Optionee as soon as it is aware of the same and the Option will be null and void and this Agreement will have no further force or effect.

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and if delivered, upon delivery. If normal mail service is interrupted by a labor dispute, slowdown, strike, force majeure, or other cause, a notice sent by mail shall not be deemed to be received until actually received, and the party giving such notice shall use such other service as may be available to ensure prompt delivery or shall deliver such notice.

#### 10. Governing Law

This Agreement shall be construed and enforced in accordance with the laws of the Province of British Columbia and the Federal laws of Canada applicable therein.

#### 11. Time of the Essence

Time shall be of the essence in the performance of obligations under this Agreement.

#### 12. Entire Agreement

This Agreement supersedes all prior and contemporaneous oral and written statements and representations and contains the entire agreement between the parties with respect to the Option.

IN WITNESS WHEREOF the parties have executed these presents as of the day and the year first above written.

#### **GOLDEN STAR RESOURCES LTD.**

By: \_\_\_\_\_/s/\_\_\_\_\_  
LOUIS PELOQUIN  
VICE PRESIDENT, GENERAL COUNSEL

\_\_\_\_\_/s/\_\_\_\_\_  
ROBERT MINTO

## OPTION AGREEMENT

THIS AGREEMENT is entered into effective as of the 8th day of December, 1998 (the "Date of Grant")

### **BETWEEN:**

GOLDEN STAR RESOURCES LTD., a corporation created by amalgamation under the laws of Canada and having its registered office at 885 W. Georgia Street, 19th Floor, Vancouver, BC, Canada V6C 3H4

(hereinafter called the "Company")

### **OF THE FIRST PART**

AND:           ROGER MORTON, residing at 9039 Saskatchewan Dr., Edmonton, Alberta,  
                  T6G 2V2 CANADA

(hereinafter called the "Optionee")

OF THE SECOND PART

### **WHEREAS:**

- A. The Company is the registered and beneficial owner of certain Class B common shares (the "Class B Shares") in Guyanor Ressources S.A. ("Guyanor"), a "societe anonyme" constituted under the laws of France;
- B. Guyanor is a controlled subsidiary of the Company and the Company will directly benefit from the business success of Guyanor;
- C. In consideration of the service rendered by the Optionee, the Company desires to grant an option to the Optionee to purchase certain Class B Shares of Guyanor from the Company.

NOW THEREFORE in consideration of the premises and of the covenants and conditions hereinafter set forth, the parties hereto agree as follows:

#### 1. Grant

The Company hereby grants to the Optionee the option (the "Option") to purchase, effective the Date of the Grant and upon and subject to all the terms and conditions set forth herein, 10,000 Class B Shares of Guyanor which are owned by the Company (collectively, the "Optioned Shares").

#### 2. Exercise Price

The exercise price for Optioned Shares shall be \$1.05 (CDN) per share (the "Exercise Price").

#### 3. Exercise

The Option shall vest immediately.

If the Optionee is subject to section 16 of the United States Securities Act of 1934, as amended (the "Exchange Act"), the Optionee shall be precluded from exercising the Option unless, at the time of exercise of his Option, six months have elapsed since the date of grant of the Option.

Except as provided in paragraph 5 hereof, the Option may only be exercised while the Optionee is at the time of such exercise a director of the Company and shall have continuously so served since the grant of the Option.

The Optionee may exercise the Option by giving written notice to the Company and delivering to the Company a certified cheque in an amount equal to the number of Optioned Shares in respect of which the Option is being exercised multiplied by the Exercise Price. Upon compliance with the foregoing but subject to paragraph 8 hereof, the Company agrees to do all things necessary in accordance with Guyanor's share transfer procedures in order to cause the Optionee to become the beneficial owner of such number of Optioned Shares in respect of which the Option is exercised. The Optionee acknowledges that, due to French law considerations, Class B Shares of Guyanor are not represented by share certificates and the Optionee will comply with Guyanor's share registration and transfer procedures.

#### 4. Option Not Transferable

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#### 5. Termination of Option

The Option shall terminate, to the extent not previously exercised, upon the first to occur of the following dates:

(a) at 5:00 p.m. (Denver, Colorado time) on the date which is ten years from the Date of Grant, the expiration date of the Option;

(b) one year after the Optionee ceases to be a Director of the Company for any reason; in the event of death, the Option may be exercised within such year by the person to whom the Optionee's rights under the Option shall pass by the Optionee's will or by the laws of descent and distribution to the extent that the Optionee was entitled to exercise the Option at his death.

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#### 7. Professional Advice

The acceptance and exercise of the Option and the sale of the Optioned Shares issued pursuant to the exercise of the Option may have consequences under applicable tax and securities laws

which may vary depending on the individual circumstances of the Optionee. Accordingly, the Optionee acknowledges that he has been advised to consult his personal legal and tax advisor in connection with this Agreement and his dealings with respect to the Option and the acquisition of the Optioned Shares from the Company.

## 8. Regulatory Approvals

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The Optionee further acknowledges that such Option grant and any transfer of Optioned Shares are subject to appropriate exemptions from the registration and prospectus requirements of such applicable securities laws and regulations being available to the Company and no prospectus or registration statement having to be filed by the Company. To the extent Canadian securities laws are applicable, the Company agrees to apply to relevant Canadian securities regulatory authorities for any necessary order exempting the Company from applicable Canadian registration and prospectus requirements and/or to file with relevant securities regulatory authorities any necessary notices of intention to sell. The Optionee agrees to comply with any conditions of exemptions or exemption orders from applicable registration and prospectus requirements for the Option grant, any transfer of Optioned Shares from the Company to the Optionee and any resale of the Optioned Shares by the Optionee, and acknowledges and agrees to any time delays or hold periods that may be required in connection with the use of or reliance on such applicable exemptions or exemption orders.

Where necessary to effect exemption from registration or distribution of the Optioned Shares under securities laws applicable to the securities of the Guyanor, the Optionee shall be required, upon the acquisition of any Optioned Shares pursuant to this Option to acquire the Shares with investment intent (i.e., for investment purposes) and not with a view to their distribution, and the Board of Directors of the Company may require the Optionee to sign an undertaking to that effect in a form acceptable to the Board of Directors. The Board of Directors may take such other action or require such other action or agreement by the Optionee as may from time to time be necessary to comply with applicable securities laws. If for any reason exemptions from or exemption orders relating to applicable registration and prospectus requirements under all relevant securities laws are not available to the Company in connection with the Option grant and any transfer of Optioned Shares, the Company will notify the Optionee as soon as it is aware of the same and the Option will be null and void and this Agreement will have no further force or effect.

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This Agreement shall be construed and enforced in accordance with the laws of the Province of British Columbia and the Federal laws of Canada applicable therein.

#### 11. Time of the Essence

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#### 12. Entire Agreement

This Agreement supersedes all prior and contemporaneous oral and written statements and representations and contains the entire agreement between the parties with respect to the Option.

IN WITNESS WHEREOF the parties have executed these presents as of the day and the year first above written.

#### **GOLDEN STAR RESOURCES LTD.**

By: \_\_\_\_\_/s/\_\_\_\_\_  
LOUIS PELOQUIN  
VICE PRESIDENT, GENERAL COUNSEL

\_\_\_\_\_/s/\_\_\_\_\_  
ROGER MORTON

## OPTION AGREEMENT

THIS AGREEMENT is entered into effective as of the 8th day of December, 1998 (the "Date of Grant")

### **BETWEEN:**

GOLDEN STAR RESOURCES LTD., a corporation created by amalgamation under the laws of Canada and having its registered office at 885 W. Georgia Street, 19th Floor, Vancouver, BC, Canada V6C 3H4

(hereinafter called the "Company")

### **OF THE FIRST PART**

AND: RICHARD STARK, residing at 340 Palmetto Point, John's Island, Vero Beach, FL, 31963

(hereinafter called the "Optionee")

OF THE SECOND PART

### **WHEREAS:**

- A. The Company is the registered and beneficial owner of certain Class B common shares (the "Class B Shares") in Guyanor Ressources S.A. ("Guyanor"), a "societe anonyme" constituted under the laws of France;
- B. Guyanor is a controlled subsidiary of the Company and the Company will directly benefit from the business success of Guyanor;
- C. In consideration of the service rendered by the Optionee, the Company desires to grant an option to the Optionee to purchase certain Class B Shares of Guyanor from the Company.

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Except as provided in paragraph 5 hereof, the Option may only be exercised while the Optionee is at the time of such exercise a director of the Company and shall have continuously so served since the grant of the Option.

The Optionee may exercise the Option by giving written notice to the Company and delivering to the Company a certified cheque in an amount equal to the number of Optioned Shares in respect of which the Option is being exercised multiplied by the Exercise Price. Upon compliance with the foregoing but subject to paragraph 8 hereof, the Company agrees to do all things necessary in accordance with Guyanor's share transfer procedures in order to cause the Optionee to become the beneficial owner of such number of Optioned Shares in respect of which the Option is exercised. The Optionee acknowledges that, due to French law considerations, Class B Shares of Guyanor are not represented by share certificates and the Optionee will comply with Guyanor's share registration and transfer procedures.

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IN WITNESS WHEREOF the parties have executed these presents as of the day and the year first above written.

#### **GOLDEN STAR RESOURCES LTD.**

By: \_\_\_\_\_/s/\_\_\_\_\_  
LOUIS PELOQUIN  
VICE PRESIDENT, GENERAL COUNSEL

\_\_\_\_\_/s/\_\_\_\_\_  
RICHARD STARK

## OPTION AGREEMENT

THIS AGREEMENT is entered into effective as of the 8th day of December, 1998 (the "Date of Grant")

### **BETWEEN:**

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(hereinafter called the "Company")

### **OF THE FIRST PART**

AND: ROBERT STONE, residing at 15-16 09 Balsam Street, Vancouver, British Columbia, V6K 3L9 CANADA

(hereinafter called the "Optionee")

OF THE SECOND PART

### **WHEREAS:**

A. The Company is the registered and beneficial owner of certain Class B common shares (the "Class B Shares") in Guyanor Ressources S.A. ("Guyanor"), a "societe anonyme" constituted under the laws of France;

B. Guyanor is a controlled subsidiary of the Company and the Company will directly benefit from the business success of Guyanor;

C. In consideration of the service rendered by the Optionee, the Company desires to grant an option to the Optionee to purchase certain Class B Shares of Guyanor from the Company.

NOW THEREFORE in consideration of the premises and of the covenants and conditions hereinafter set forth, the parties hereto agree as follows:

#### 1. Grant

The Company hereby grants to the Optionee the option (the "Option") to purchase, effective the Date of the Grant and upon and subject to all the terms and conditions set forth herein, 10,000 Class B Shares of Guyanor which are owned by the Company (collectively, the "Optioned Shares").

#### 2. Exercise Price

The exercise price for Optioned Shares shall be \$1.05 (CDN) per share (the "Exercise Price").

#### 3. Exercise

The Option shall vest immediately.

If the Optionee is subject to section 16 of the United States Securities Act of 1934, as amended (the "Exchange Act"), the Optionee shall be precluded from exercising the Option unless, at the time of exercise of his Option, six months have elapsed since the date of grant of the Option.

Except as provided in paragraph 5 hereof, the Option may only be exercised while the Optionee is at the time of such exercise a director of the Company and shall have continuously so served since the grant of the Option.

The Optionee may exercise the Option by giving written notice to the Company and delivering to the Company a certified cheque in an amount equal to the number of Optioned Shares in respect of which the Option is being exercised multiplied by the Exercise Price. Upon compliance with the foregoing but subject to paragraph 8 hereof, the Company agrees to do all things necessary in accordance with Guyanor's share transfer procedures in order to cause the Optionee to become the beneficial owner of such number of Optioned Shares in respect of which the Option is exercised. The Optionee acknowledges that, due to French law considerations, Class B Shares of Guyanor are not represented by share certificates and the Optionee will comply with Guyanor's share registration and transfer procedures.

#### 4. Option Not Transferable

The Option is not transferable or assignable except by will or by the laws of descent and distribution.

#### 5. Termination of Option

The Option shall terminate, to the extent not previously exercised, upon the first to occur of the following dates:

(a) at 5:00 p.m. (Denver, Colorado time) on the date which is ten years from the Date of Grant, the expiration date of the Option;

(b) one year after the Optionee ceases to be a Director of the Company for any reason; in the event of death, the Option may be exercised within such year by the person to whom the Optionee's rights under the Option shall pass by the Optionee's will or by the laws of descent and distribution to the extent that the Optionee was entitled to exercise the Option at his death.

#### 6. Adjustments in Shares

The Option confers upon the Optionee the option to purchase Class B Shares as they are constituted at the Date of Grant. If prior to the exercise of the Option Guyanor is required under French law to make adjustments in the value of its Class B Shares, the Company agrees that it will make corresponding adjustments to the number of Optioned Shares or the Exercise Price.

#### 7. Professional Advice

The acceptance and exercise of the Option and the sale of the Optioned Shares issued pursuant to the exercise of the Option may have consequences under applicable tax and securities laws

which may vary depending on the individual circumstances of the Optionee. Accordingly, the Optionee acknowledges that he has been advised to consult his personal legal and tax advisor in connection with this Agreement and his dealings with respect to the Option and the acquisition of the Optioned Shares from the Company.

## 8. Regulatory Approvals

The Option shall be subject to any necessary approval of and acceptance by any stock exchange on which the Optioned Shares are listed and any other regulatory authority having jurisdiction over the Company or Guyanor. The Optionee acknowledges that the grant of the Option by the Company to the Optionee and the transfer of the Optioned Shares by the Company to the Optionee upon any exercise of the Option are subject to applicable securities laws and regulations.

The Optionee further acknowledges that such Option grant and any transfer of Optioned Shares are subject to appropriate exemptions from the registration and prospectus requirements of such applicable securities laws and regulations being available to the Company and no prospectus or registration statement having to be filed by the Company. To the extent Canadian securities laws are applicable, the Company agrees to apply to relevant Canadian securities regulatory authorities for any necessary order exempting the Company from applicable Canadian registration and prospectus requirements and/or to file with relevant securities regulatory authorities any necessary notices of intention to sell. The Optionee agrees to comply with any conditions of exemptions or exemption orders from applicable registration and prospectus requirements for the Option grant, any transfer of Optioned Shares from the Company to the Optionee and any resale of the Optioned Shares by the Optionee, and acknowledges and agrees to any time delays or hold periods that may be required in connection with the use of or reliance on such applicable exemptions or exemption orders.

Where necessary to effect exemption from registration or distribution of the Optioned Shares under securities laws applicable to the securities of the Guyanor, the Optionee shall be required, upon the acquisition of any Optioned Shares pursuant to this Option to acquire the Shares with investment intent (i.e., for investment purposes) and not with a view to their distribution, and the Board of Directors of the Company may require the Optionee to sign an undertaking to that effect in a form acceptable to the Board of Directors. The Board of Directors may take such other action or require such other action or agreement by the Optionee as may from time to time be necessary to comply with applicable securities laws. If for any reason exemptions from or exemption orders relating to applicable registration and prospectus requirements under all relevant securities laws are not available to the Company in connection with the Option grant and any transfer of Optioned Shares, the Company will notify the Optionee as soon as it is aware of the same and the Option will be null and void and this Agreement will have no further force or effect.

## 9. Notices

Any notice to be given hereunder shall be deemed to have been well and sufficiently given if mailed by prepaid registered mail, telexed, telecopied, telegraphed or delivered to the parties at the addresses specified above or at such other address as each party may from time to time direct in writing. Any such notice shall be deemed to have been received if mailed, telexed, telecopied, or telegraphed, forty-eight hours after the time of mailing, telexing, telecopying or telegraphing

and if delivered, upon delivery. If normal mail service is interrupted by a labor dispute, slowdown, strike, force majeure, or other cause, a notice sent by mail shall not be deemed to be received until actually received, and the party giving such notice shall use such other service as may be available to ensure prompt delivery or shall deliver such notice.

#### 10. Governing Law

This Agreement shall be construed and enforced in accordance with the laws of the Province of British Columbia and the Federal laws of Canada applicable therein.

#### 11. Time of the Essence

Time shall be of the essence in the performance of obligations under this Agreement.

#### 12. Entire Agreement

This Agreement supersedes all prior and contemporaneous oral and written statements and representations and contains the entire agreement between the parties with respect to the Option.

IN WITNESS WHEREOF the parties have executed these presents as of the day and the year first above written.

#### **GOLDEN STAR RESOURCES LTD.**

By: \_\_\_\_\_/s/\_\_\_\_\_  
*LOUIS PELOQUIN*  
*VICE PRESIDENT, GENERAL COUNSEL*

\_\_\_\_\_/s/\_\_\_\_\_  
*ROBERT STONE*

**Exhibit 23.1**

**CONSENT OF INDEPENDENT ACCOUNTANTS**

We consent to the incorporation by reference in the Registration Statements of Golden Star Resources Ltd. on Form S-3 (File No. 333-12673) and on Form S-8 (File No. 33-81614) of our report dated March 5, 1999, on our audits of the consolidated financial statements of Golden Star Resources Ltd. as of December 31, 1998 and 1997, and for each of the three years ended December 31, 1998, 1997 and 1996, which report is included in this Annual Report on Form 10-K.

/s/

-----  
*Pricewaterhouse Coopers*  
*Chartered Accountants*  
*Calgary, Canada*

*March 26, 1999*

**Exhibit 23.2**

**CONSENT OF SRK CONSULTING**

We hereby consent to the references to us and to our report dated September 3, 1998, appearing in the Annual Report on Form 10-K of Golden Star Resources Ltd. for its fiscal year ended December 31, 1998.

We also consent to the incorporation by reference in the Registration Statements on Form S-3, No. 333-12673 and on Form S-8, No. 33-81614 of Golden Star Resources Ltd. and in the related Prospectuses of the reference to us and to our report appearing in this Annual Report on Form 10-K.

----- /s/ -----  
SRK CONSULTING

*Lakewood, Colorado  
March 24, 1999*

**ARTICLE 5**

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	DEC 31 1998
CASH	7,350
SECURITIES	0
RECEIVABLES	511
ALLOWANCES	0
INVENTORY	181
CURRENT ASSETS	8,216
PP&E	2,851
DEPRECIATION	(2,166)
TOTAL ASSETS	68,597
CURRENT LIABILITIES	1,700
BONDS	2,948
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	159,163
OTHER SE	(4,012)
TOTAL LIABILITY AND EQUITY	68,597
SALES	0
TOTAL REVENUES	635
CGS	0
TOTAL COSTS	25,047
OTHER EXPENSES	950
LOSS PROVISION	0
INTEREST EXPENSE	0
INCOME PRETAX	(22,248)
INCOME TAX	0
INCOME CONTINUING	(22,248)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(22,248)
EPS PRIMARY	(0.74)
EPS DILUTED	(0.74)

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